



The State of the SD Economy

Presentation to the Governor's
Council of Economic Advisors

May 13, 2015

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Outline of Presentation

Overview of US economy

US economy forecast

SD economy

Summary & Conclusions





US Forecast

Global Insight Forecast –May 7, 2015

Real GDP

Consumption

Housing Starts

Federal Budget

Interest Rates and Inflation



GDP

GDP growth in the 1st QTR was only 0.2% and will probably be revised downward.

Special factors such FEB weather, the dock strike, the energy sector were at work.

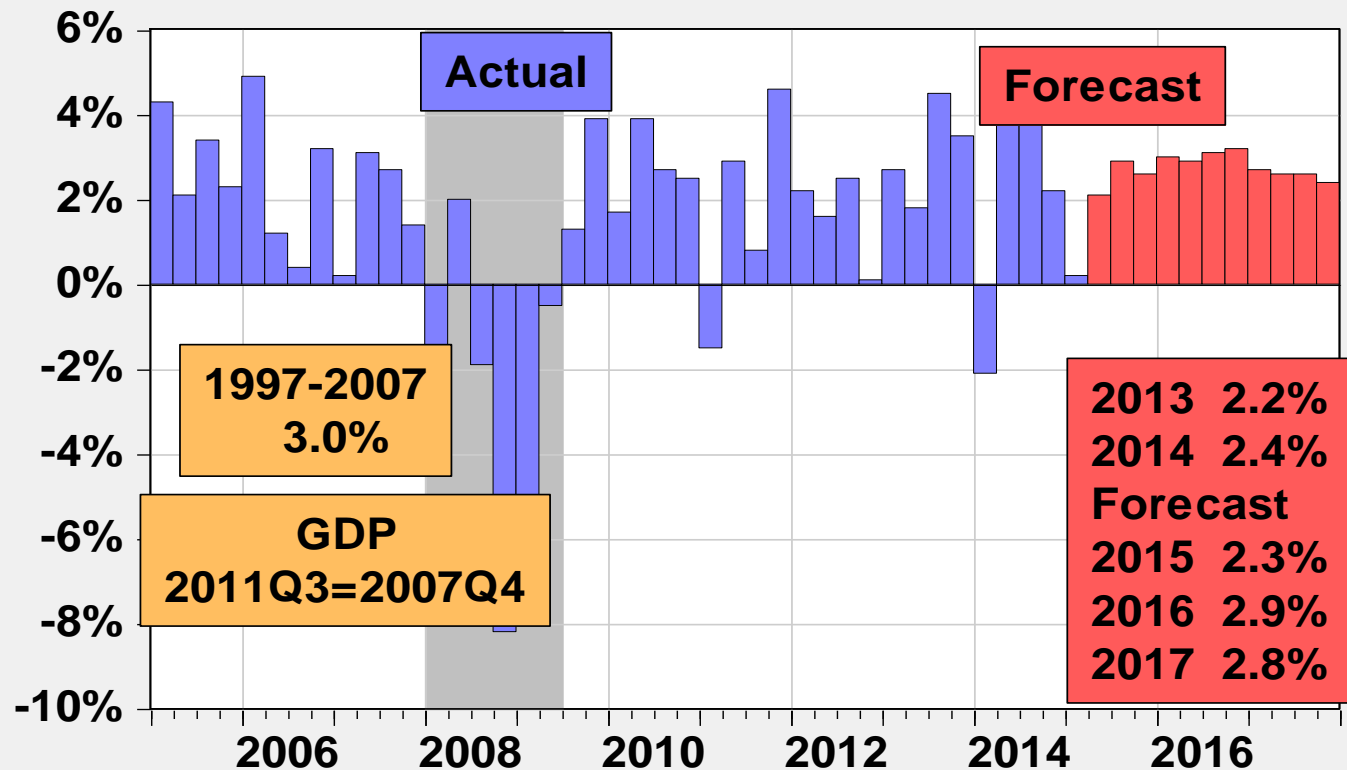
2nd QTR growth will also be lackluster

Weak inventory growth and continued energy sector contraction will shave about 1.4% off GDP growth.

Only modest pickup in the 2nd half.

Bad 1st Quarter

GROSS DOMESTIC PRODUCT



Source: BEA and IHS



Components of GDP are:

GDP = Consumption (69%)
Investment (17%)
Government (18%)
Net Export (-4%)

Consumption

Consumption forecast is downgraded slightly.

Modest growth of 3.0% in 2015 and 2016.

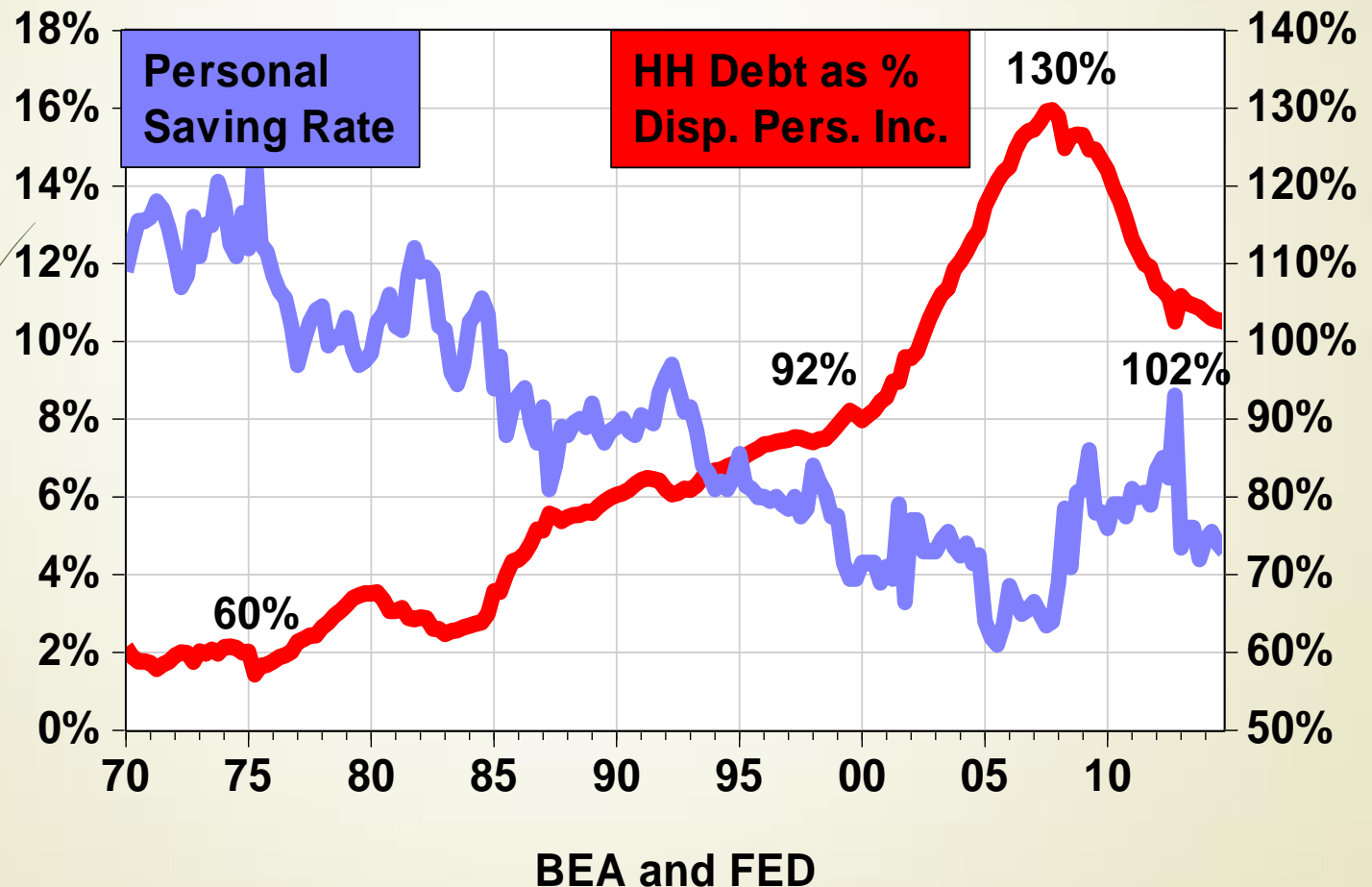
So far no pickup due to lower gasoline prices.

Consumers retain the conservative spending stance nearly 6 years after the end of the Great Recession.

Auto sales are forecasted to increase 2.9% in 2015 and 2.1% in 2016.

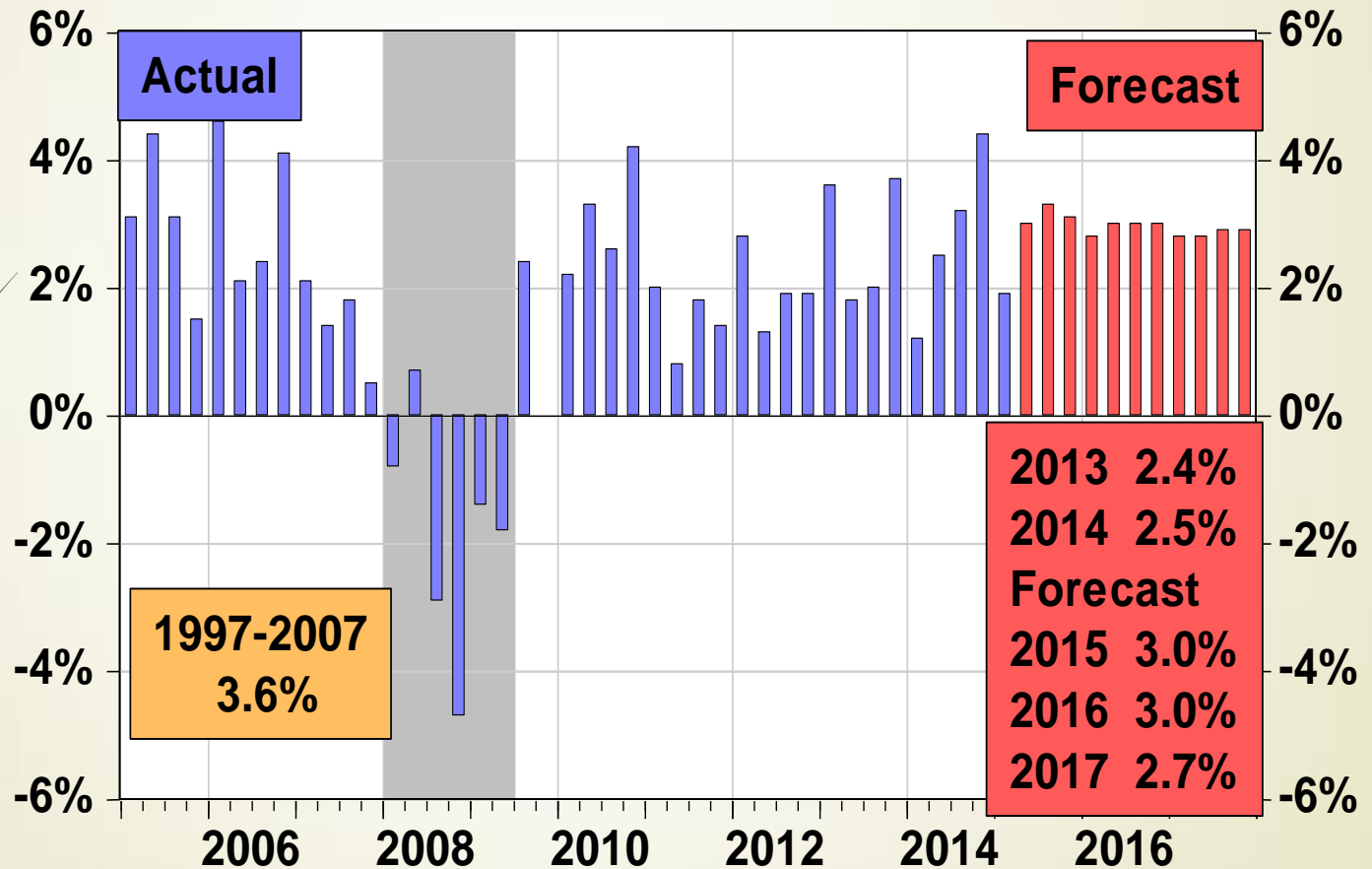
Deleveraging is Nearly Over

HOUSEHOLD DEBT AND SAVING RATE



Revised Downward

REAL CONSUMPTION



Source: BEA and IHS

Investment Sector

The big bad news is the energy sector.

The Baker Hughes oil rig count has been falling at a rate of 4.3% per week since the first of the year.

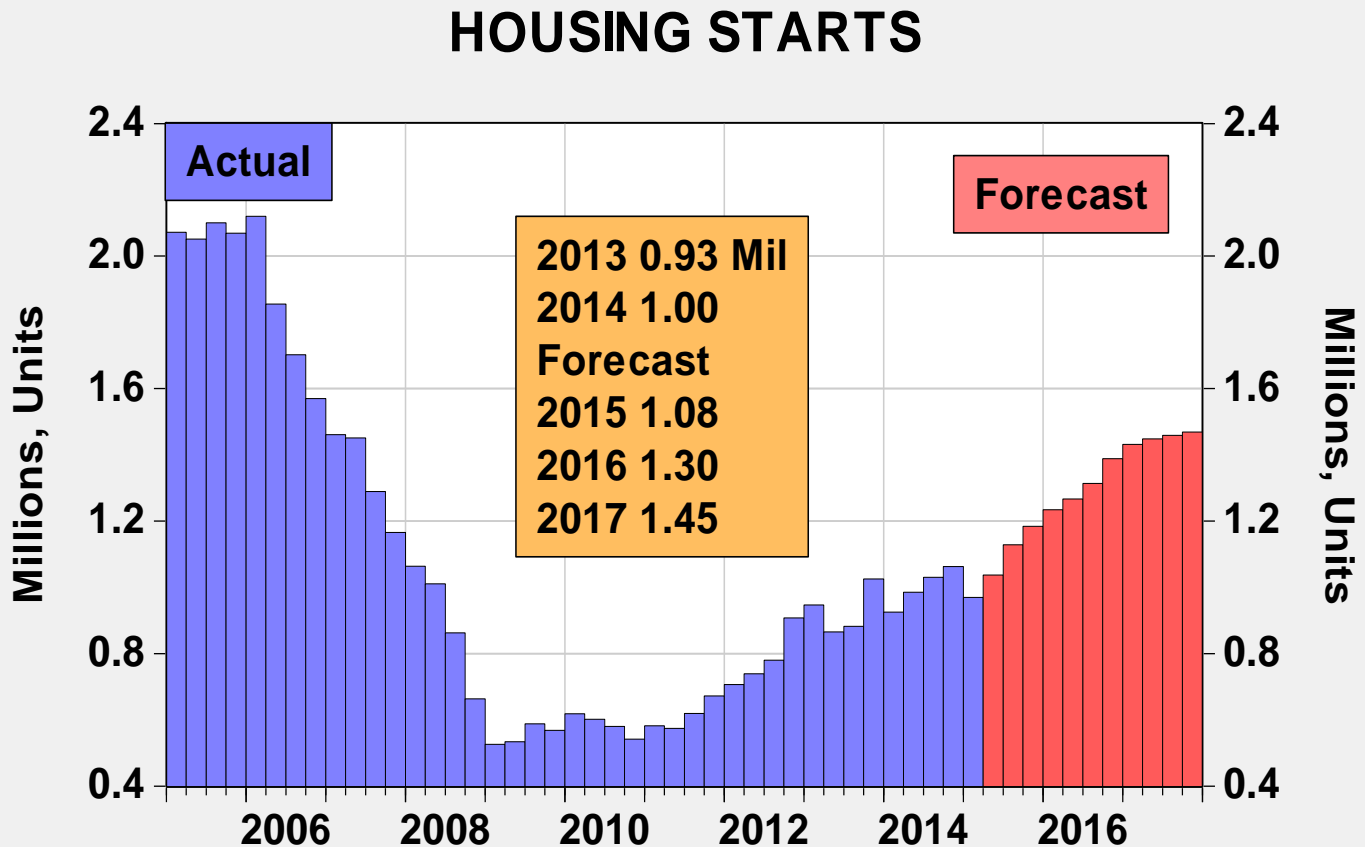
More damage is expected in the this sector over the next several quarters.

Another area of concern is inventories. The inventory/sales ratio is at its highest level since the end of the recession.

Housing starts are expected to rise 7.9% in 2015 and 20.5% in 2016.

Equipment spending will rise 5.5% in 2015 and 8.4% in 2016.

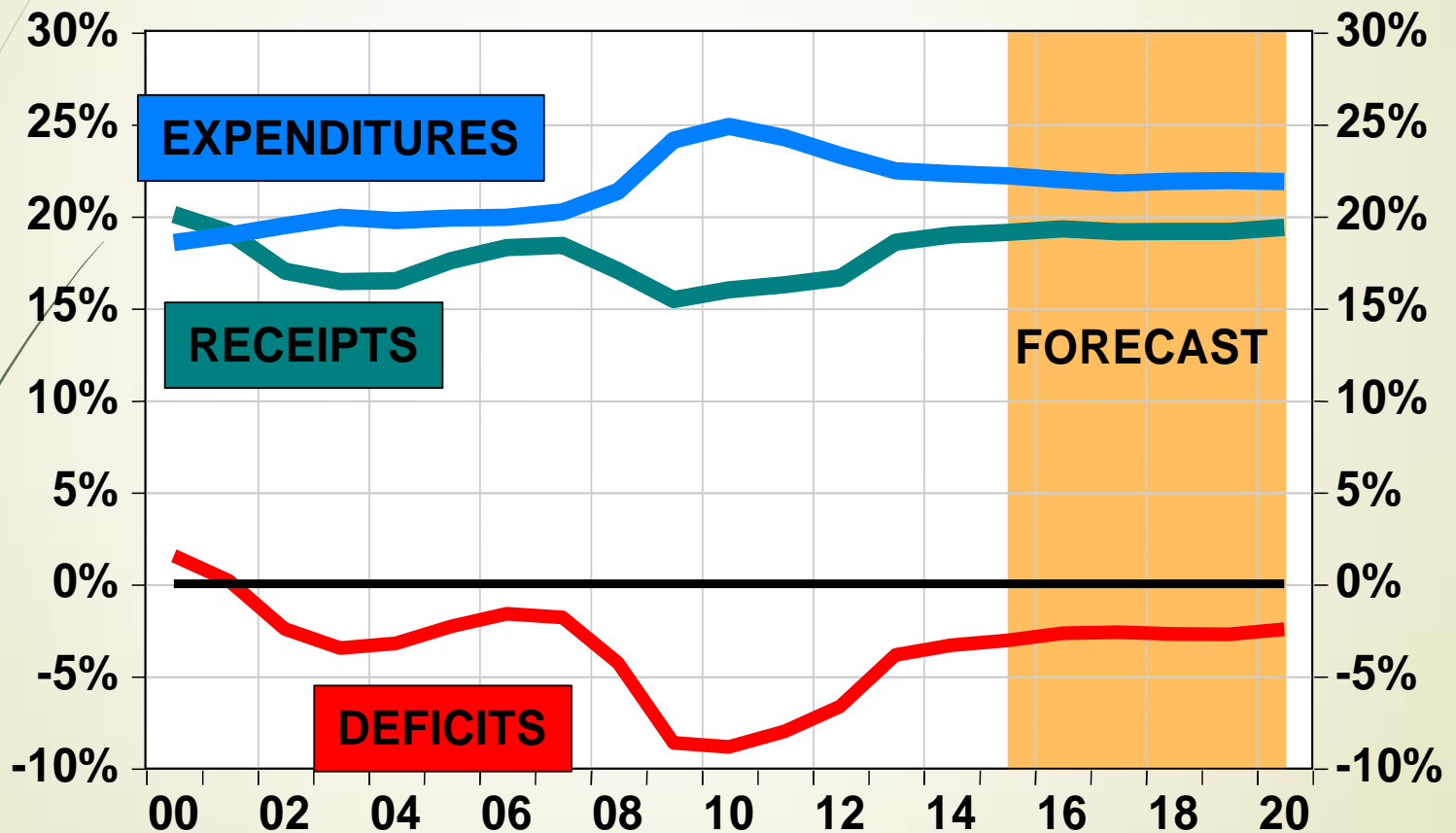
Recovery Proceeds



Source: US Census and IHS

Government Sector

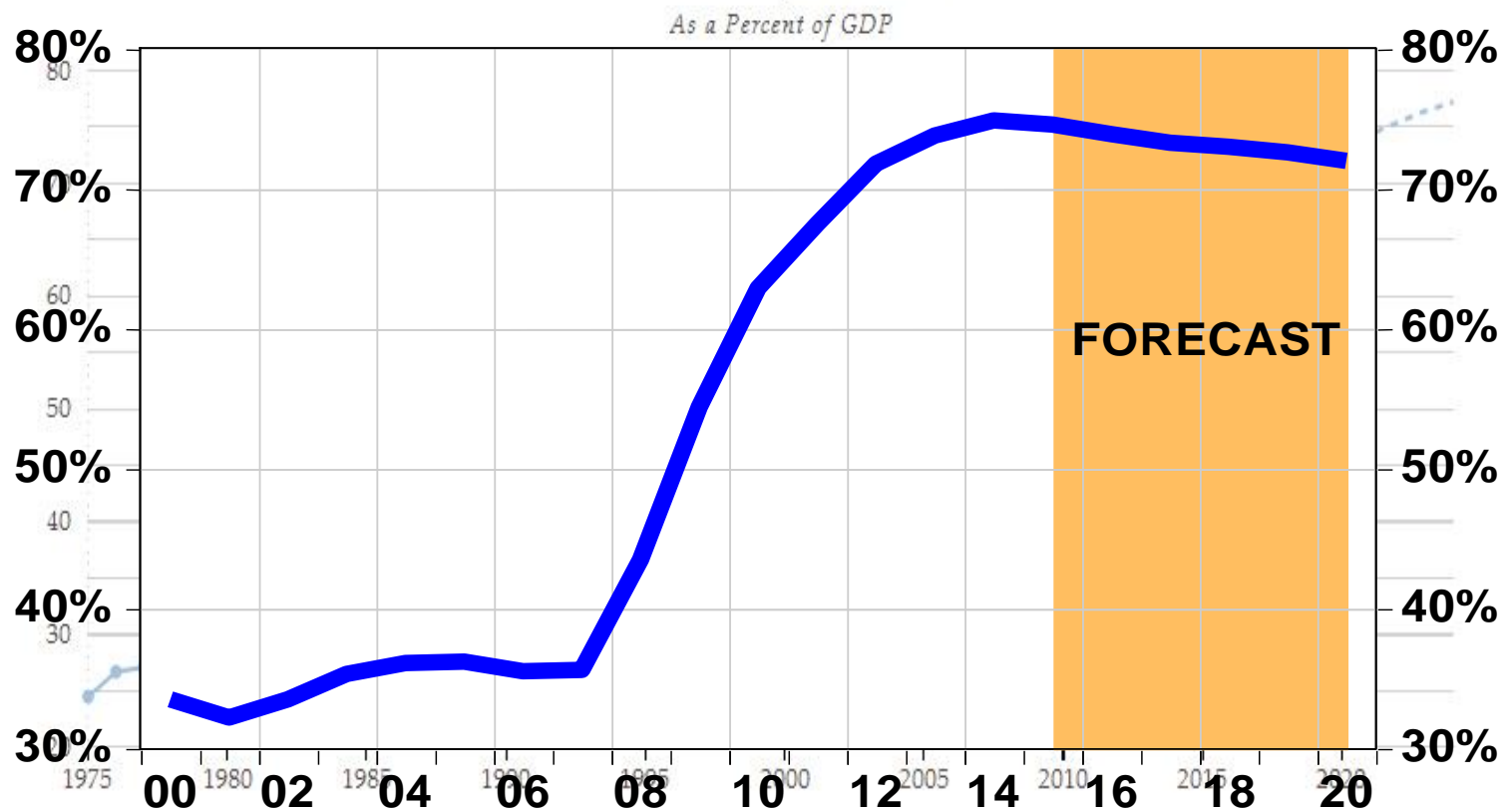
FEDERAL GOVERNMENT AS % OF GDP



Source: IHS

Debt Held by Public

FEDERAL DEBT HELD BY PUBLIC



Source: IHS

Source: CBO; dotted line indicates projected values

BROOKINGS H

Foreign Sector

Strong \$ has reduced exports and increased imports.

Inflation-adjusted, trade-weighted value of the \$ will rise another 3.2% this next year.

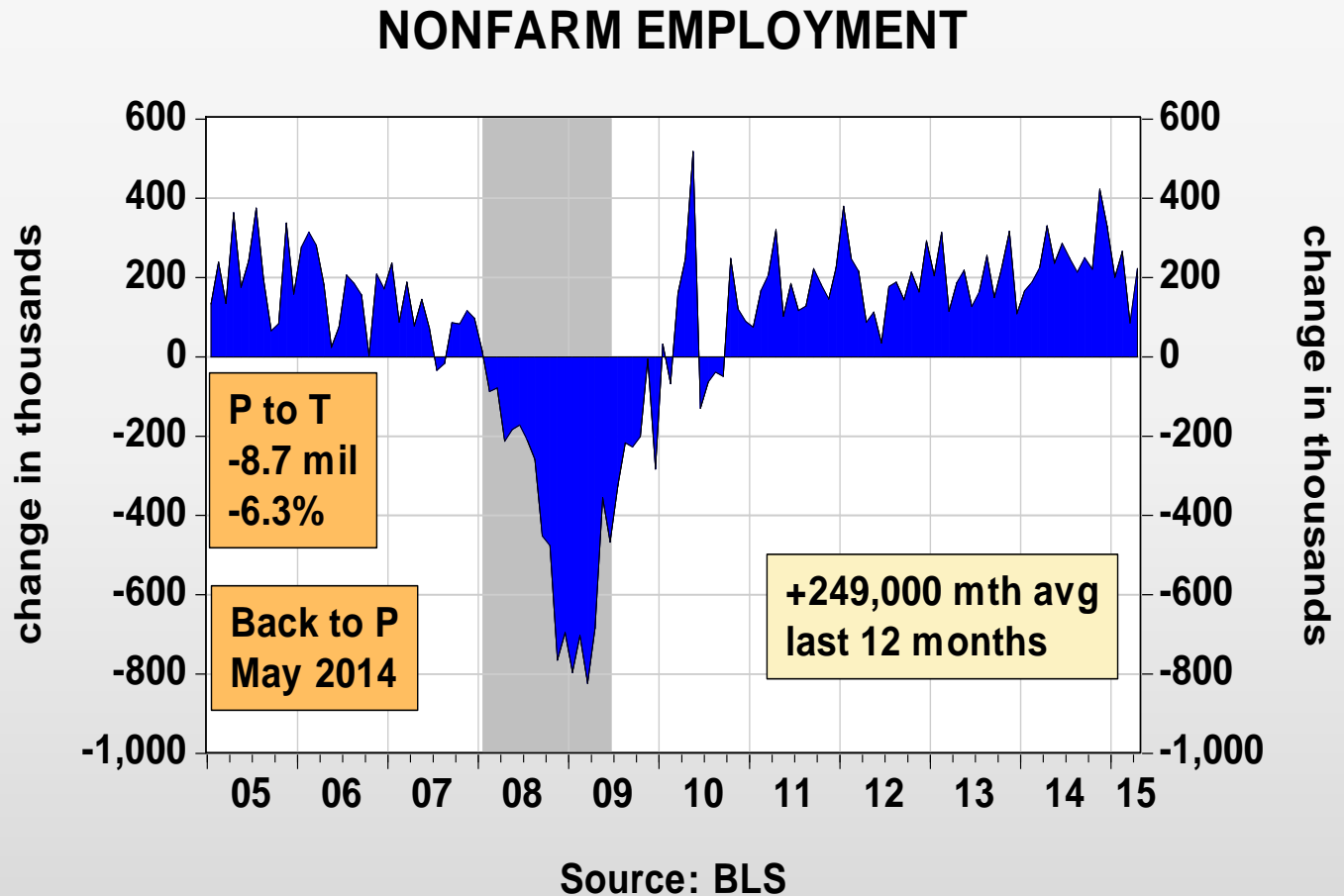
At its peak, the \$ will be 17.3% above 2014 levels.

Strong \$ has reduced non-oil import prices by 2.7%.

This will be deflationary as it will impact domestically competing goods.

When FED starts raising interest rates it will strengthen \$ even more.

Modest Growth



Employment & Unemployment

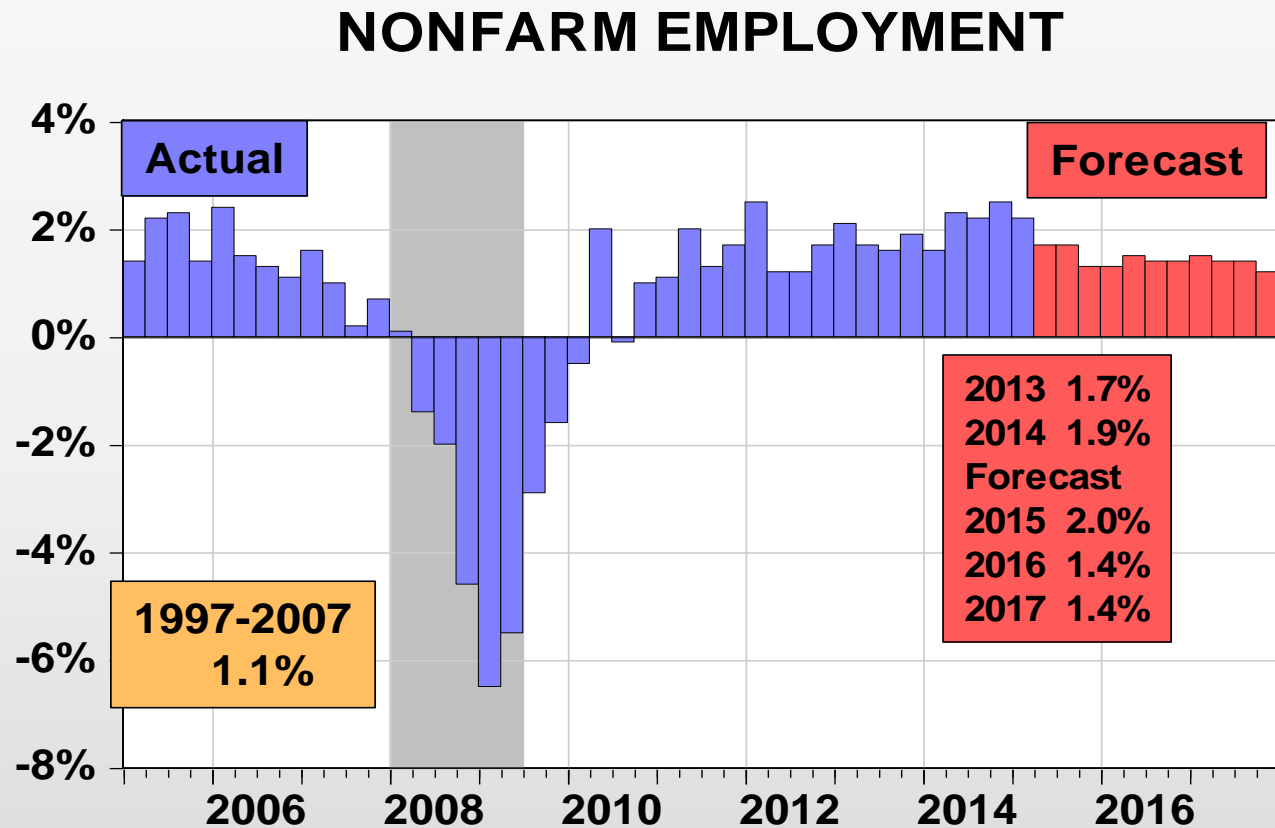
Still Slow Job-Growth Recovery

Unemployment forecast dramatically lower than previous forecasts.

Unemployment rate will average 5.4% in 2015 and 5.1% in 2016.

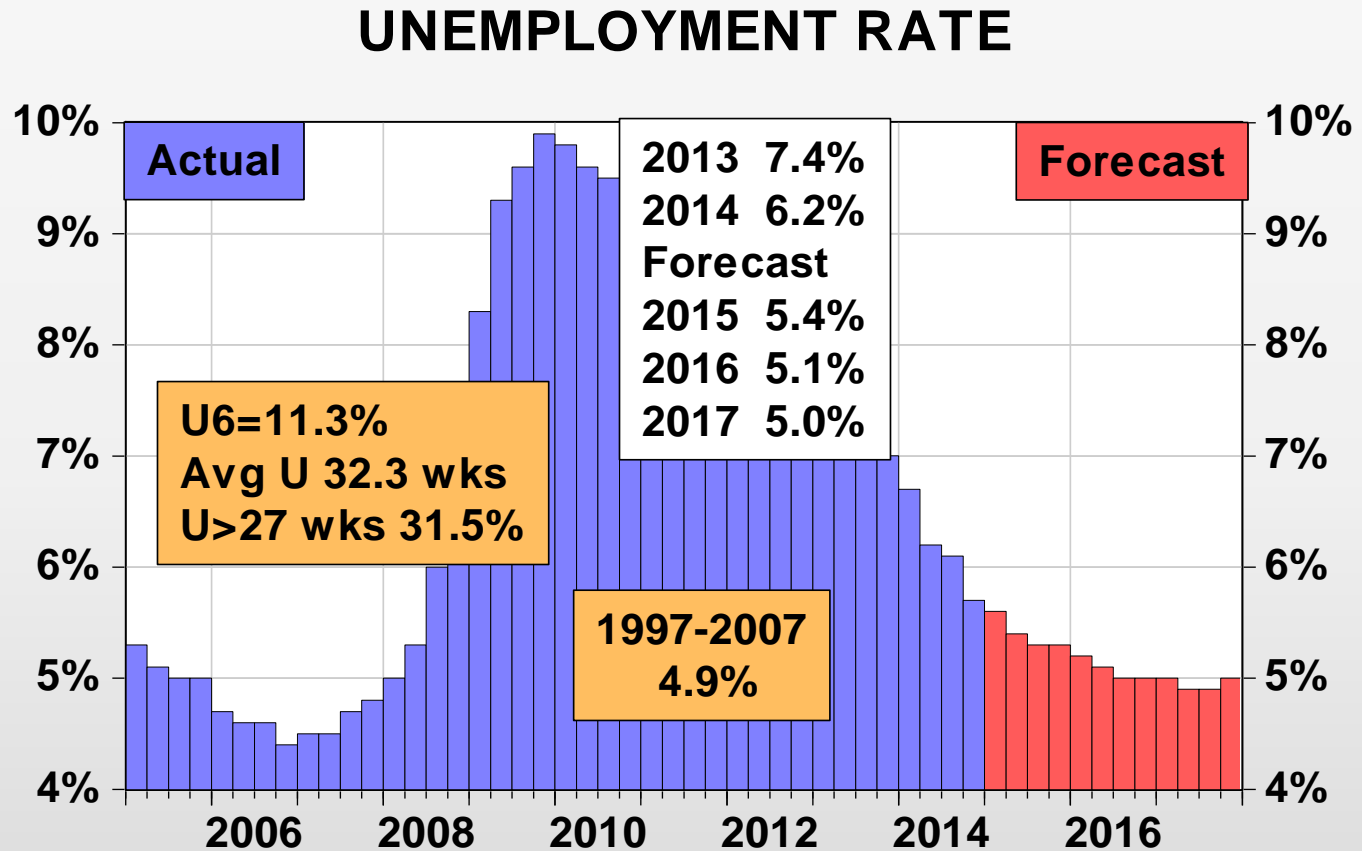
We still have the issue of low labor force participation rates contributing to the drop in unemployment.

Job Growth Slows



Source: BLS and IHS

Lower Than Expected

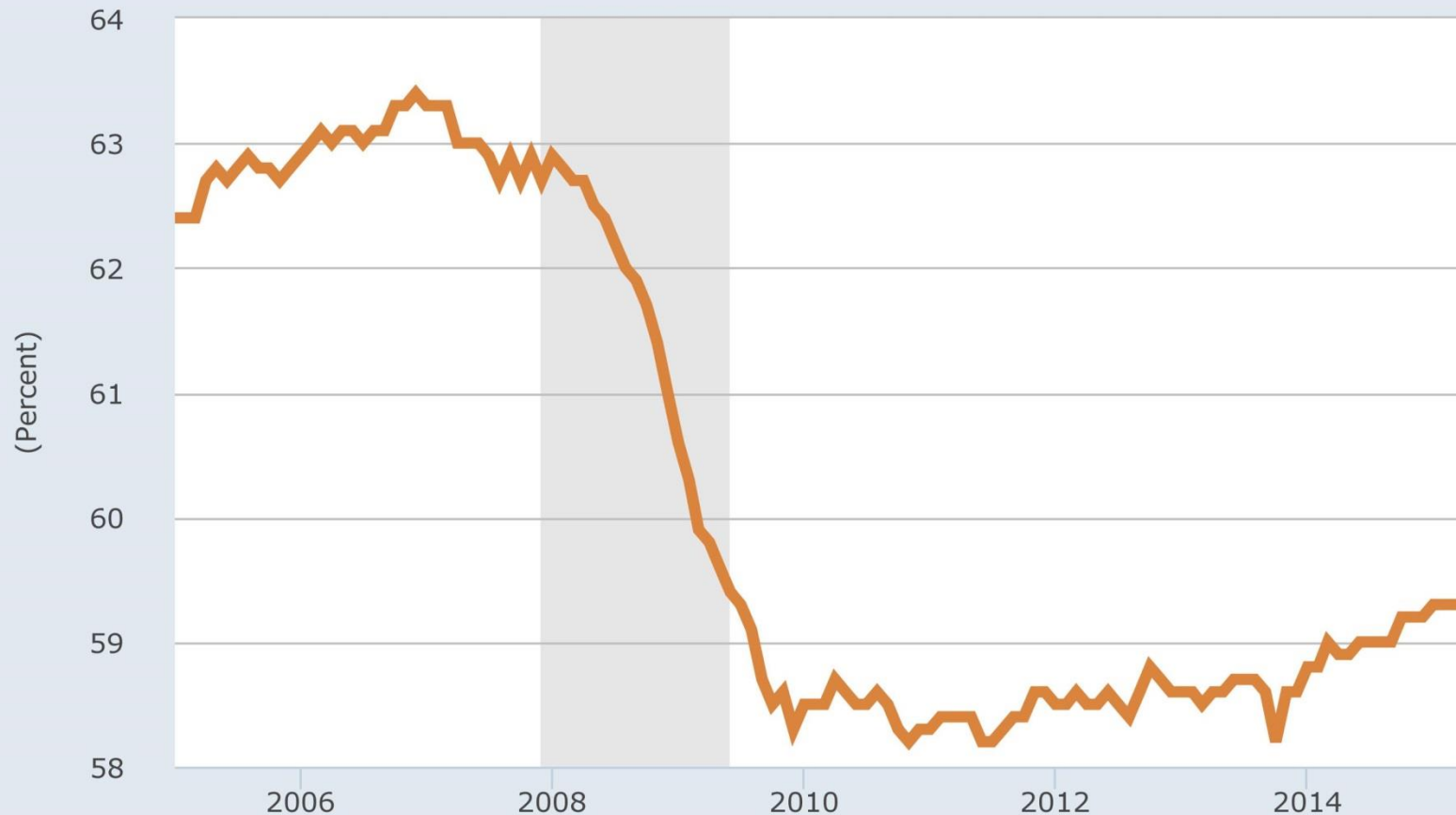


Source: BLS and IHS

EMP/POP ↓ Sharply

FRED 

— Civilian Employment-Population Ratio

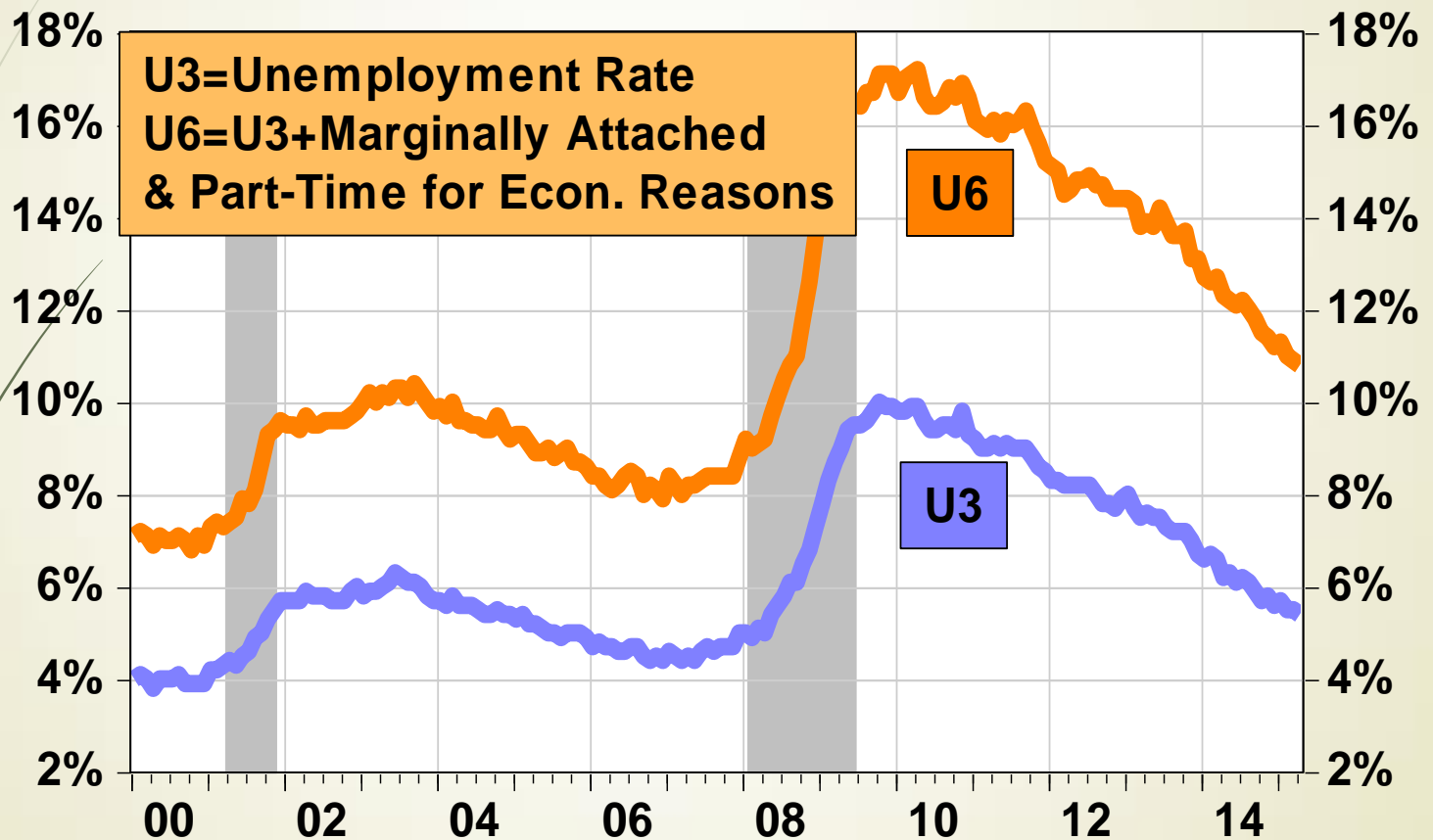


Source: US. Bureau of Labor Statistics

Shaded areas indicate US recessions - 2015 research.stlouisfed.org

U3 & U6 Unemployment Rates

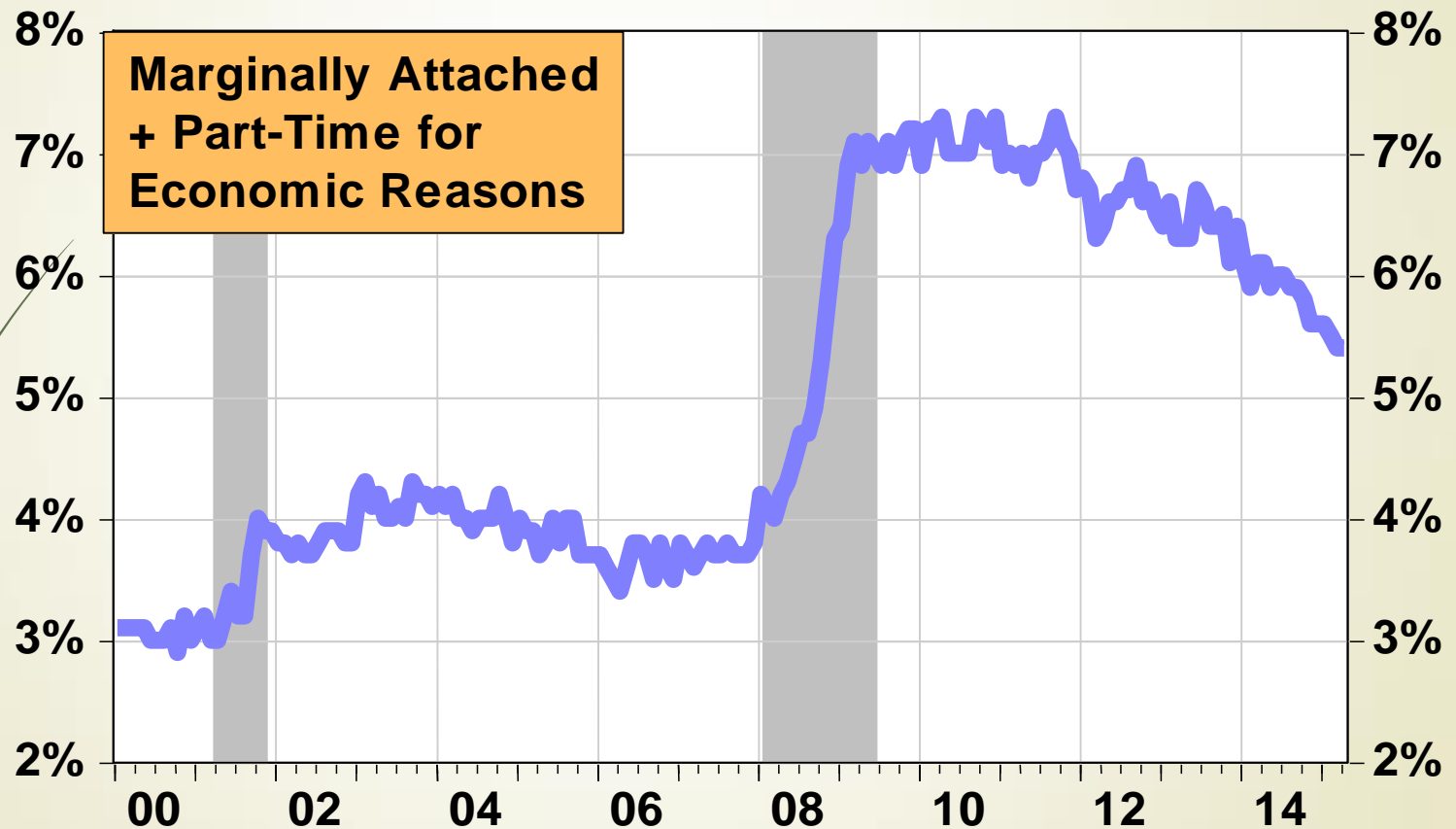
Unemployment Rates



Source: BLS

Marginally Attached & Part-Time

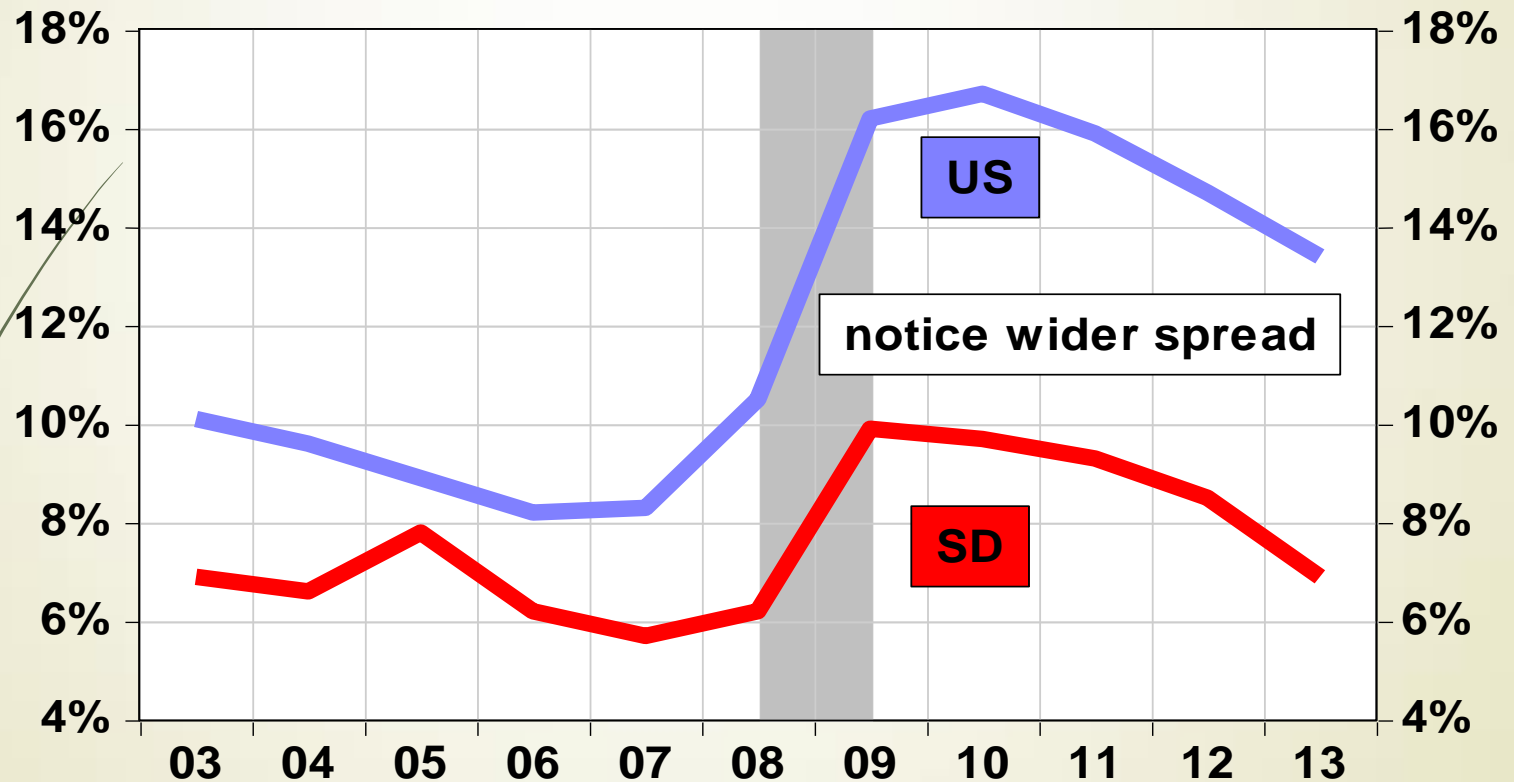
U6-U3



Source: BLS

US & SD U6 Unemployment Rate

U6 UNEMPLOYMENT RATE



Source: BLS

Inflation & Interest Rates

Inflation remains under control and well below FED's 2% target.

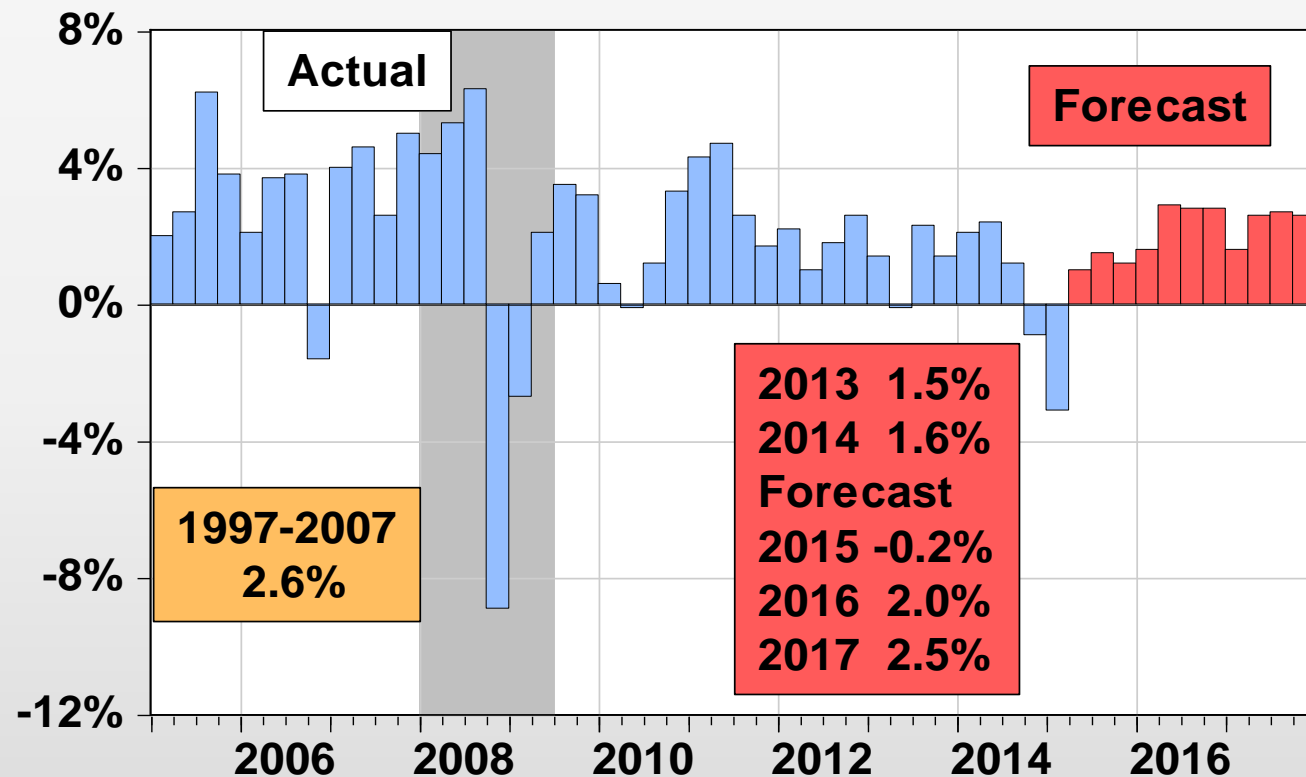
FED ended bond buying (QE) in October 2014 and will begin raising rates in September 2015???

Future FED policy will be data-dependent.

If slow growth continues, rate hike could be delayed until 2016.

Still Low

INFLATION: CPI



Source: BLS and IHS

IHS GLOBAL INSIGHT FORECAST May 2015

Variable	2014	2015	2016	2017
GDP	2.4%	2.3%	2.9%	2.8%
NA Emp	1.9%	2.0%	1.4%	1.4%
Oil(Brent)	\$100	\$57	\$66	\$74
Housing	1.00	1.08	1.30	1.45
CPI	1.6%	-0.2%	2.0%	2.5%
Un Rate	6.2%	5.4%	5.1%	5.0%



Risks to Forecast

15% chance of recession.

Risks are:

Wary consumer paying down debt rather than spending.

Slow employment growth and rising unemployment.

Weak foreign economies and lagging exports.



Key Variables Tracking SD Economy

Nonfarm employment

Housing starts

Real nonfarm personal income

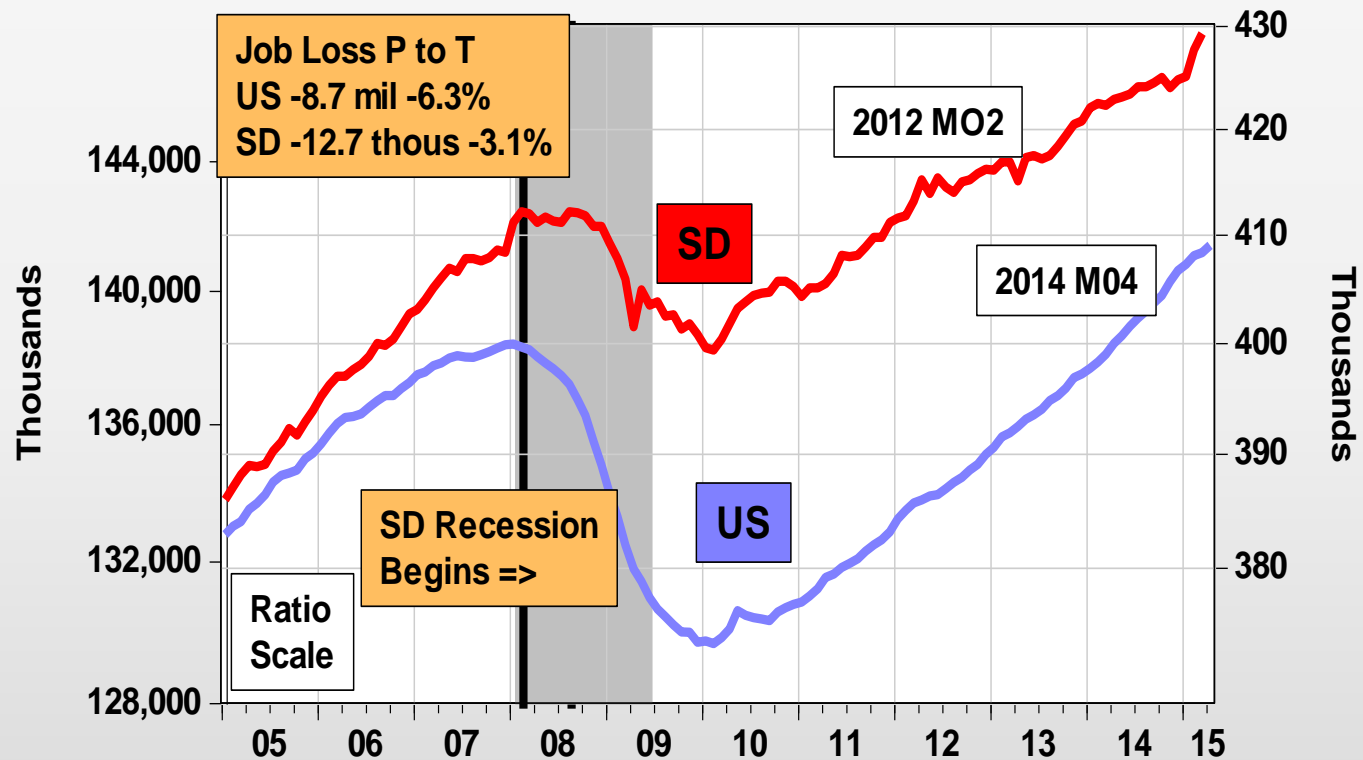
Taxable sales

Leading indicator



Steady Growth

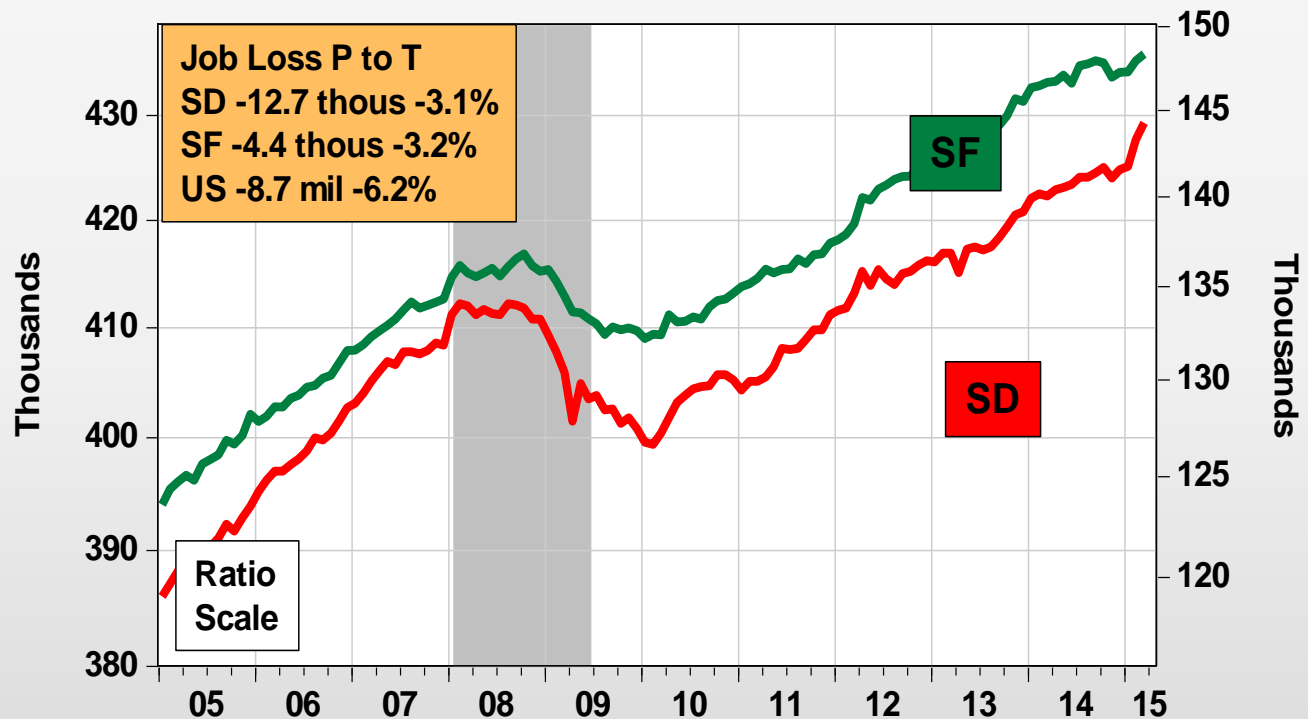
NONFARM EMPLOYMENT



Source: BLS

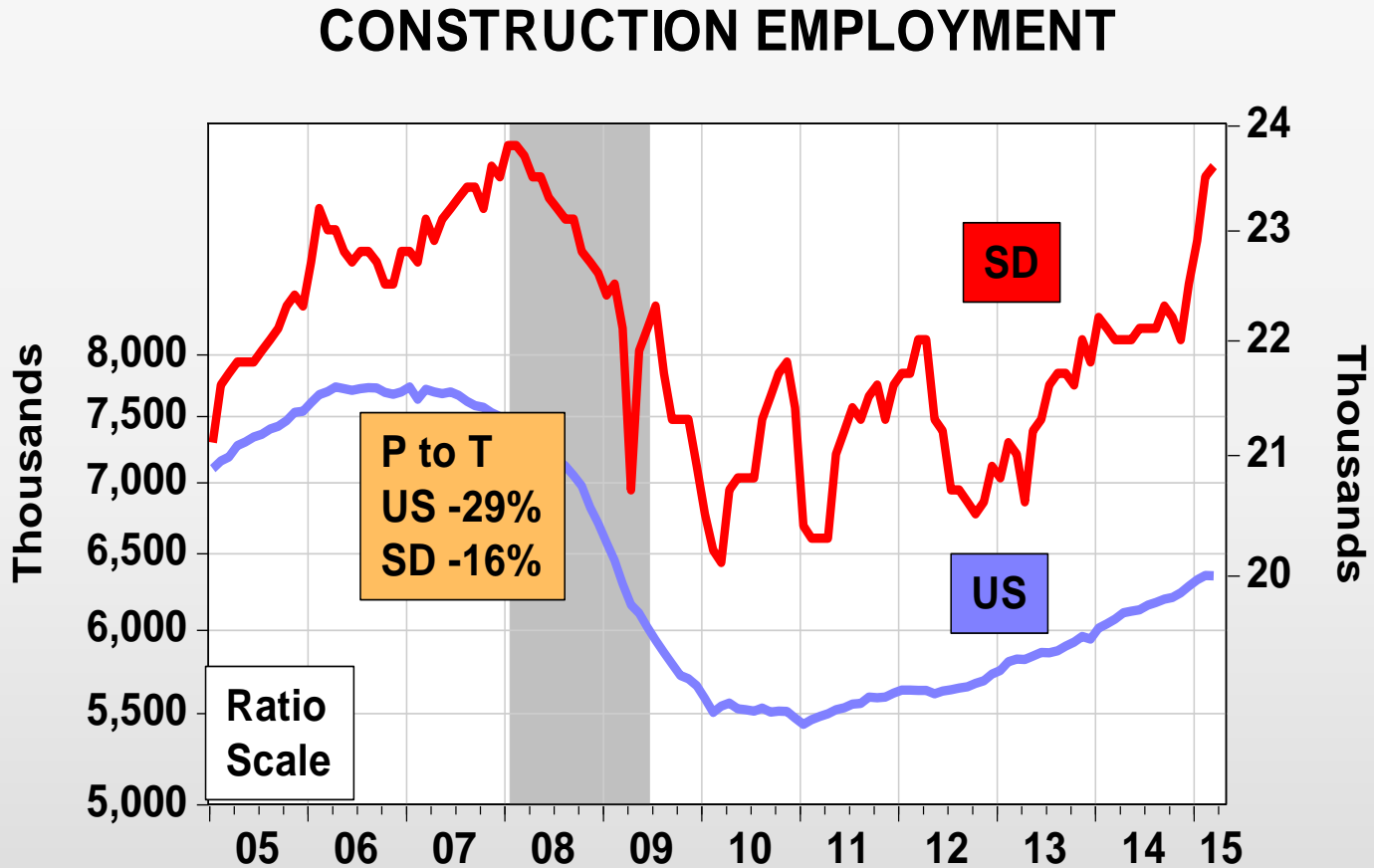
SD & SF Very Similar

NONFARM EMPLOYMENT - SD & SF



Source: BLS

Recovery – Almost Back

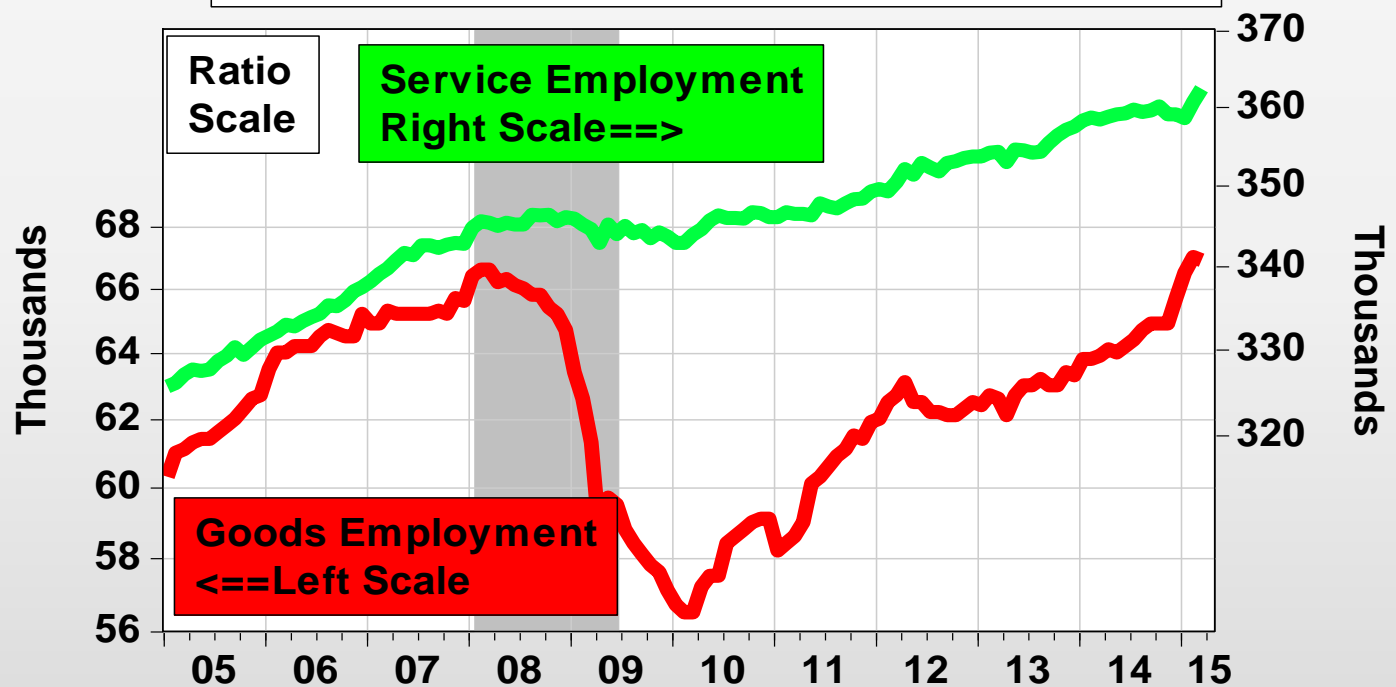


Source: BLS

Which is More Cyclical?

SOUTH DAKOTA SERVICE AND GOODS PRODUCING EMPLOYMENT

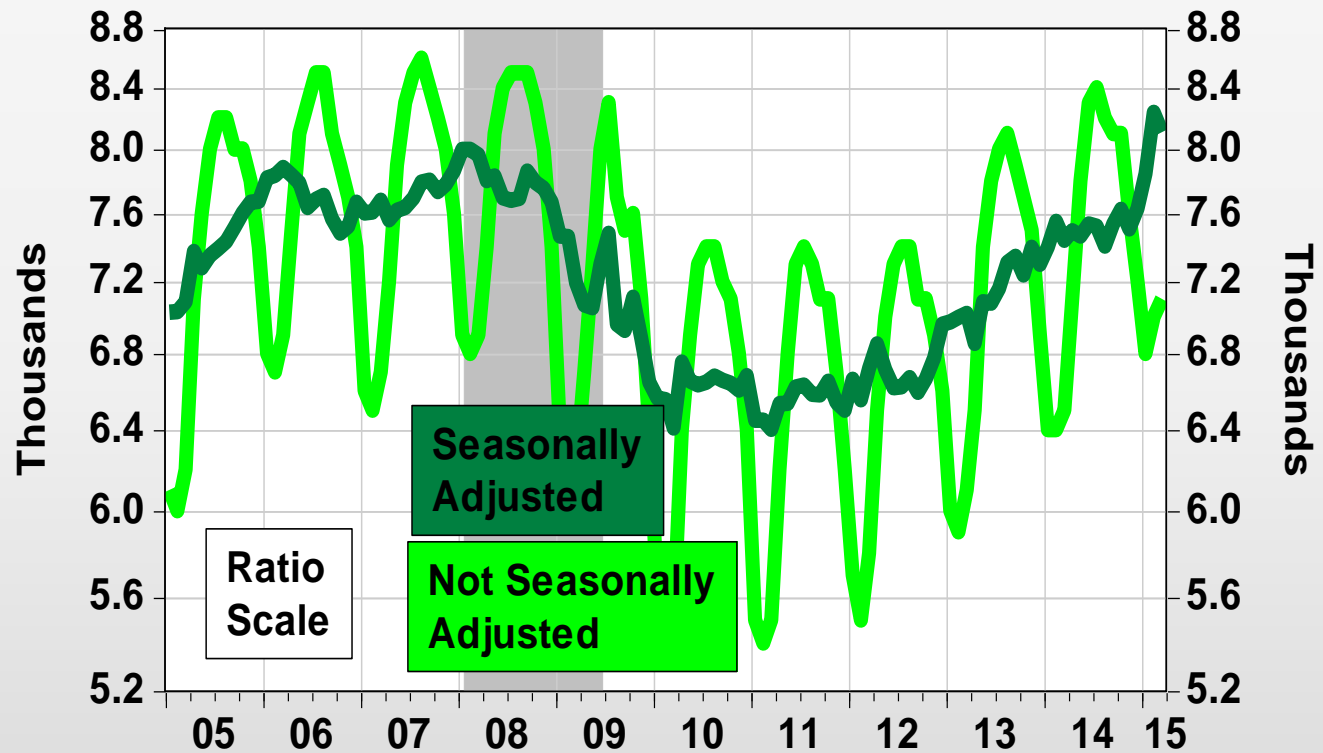
Goods-Producing = Manufacturing+Construction



Source: BLS

Above Peak

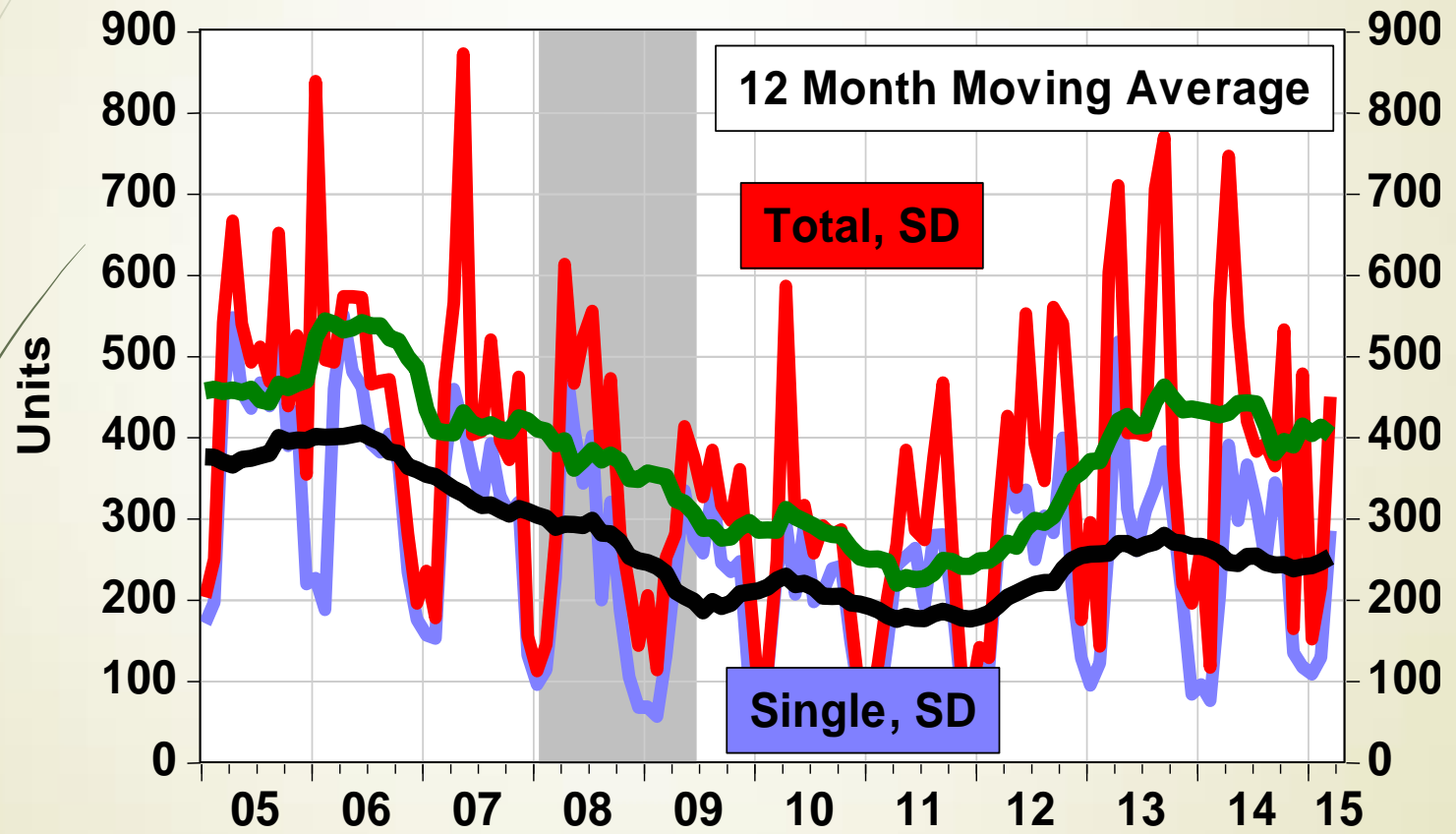
SF CONSTRUCTION EMPLOYMENT



Source: BLS

Not Quite Back to Peak

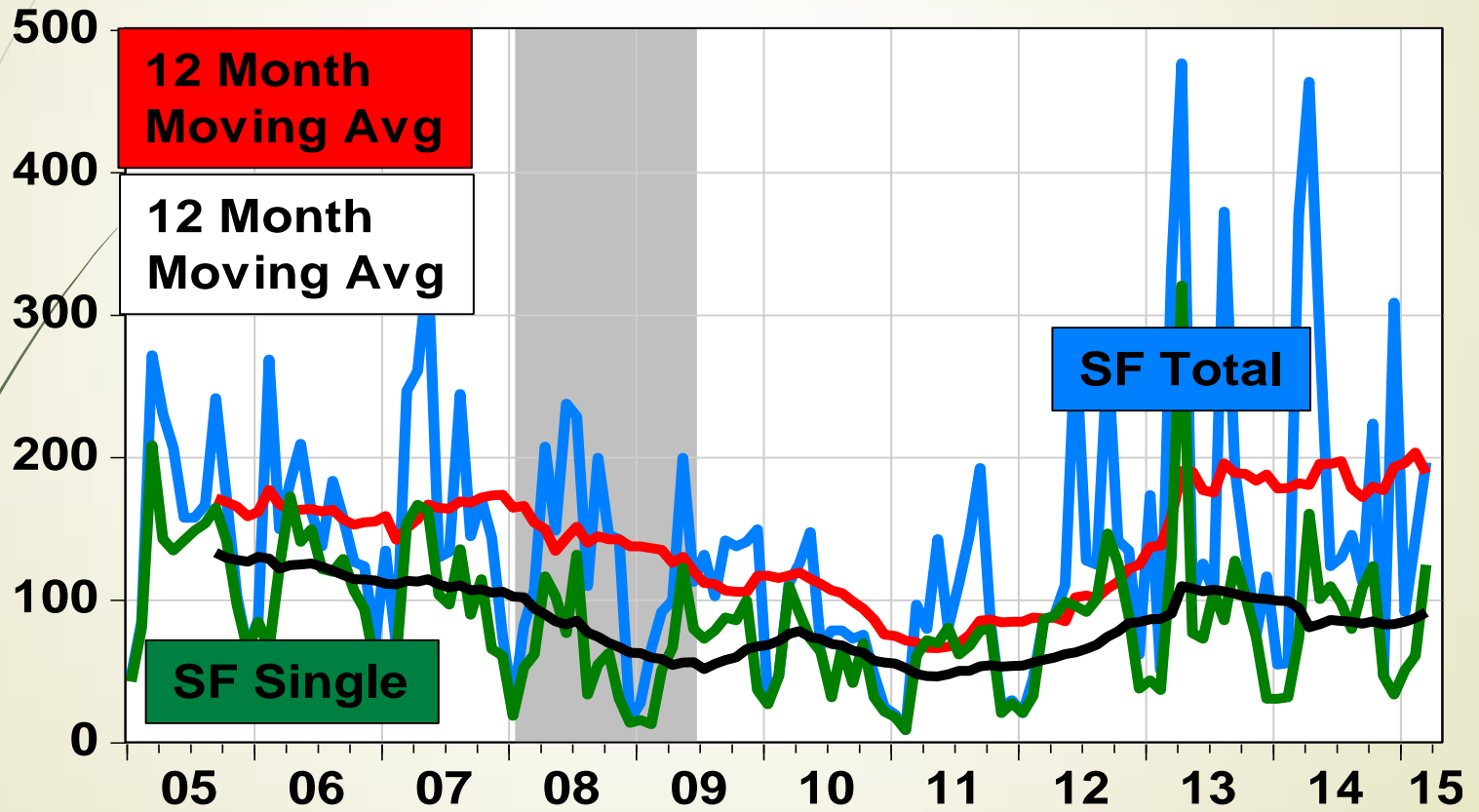
SD Building Permits, Total & Single



Source: Census Bureau

Very Good Performance

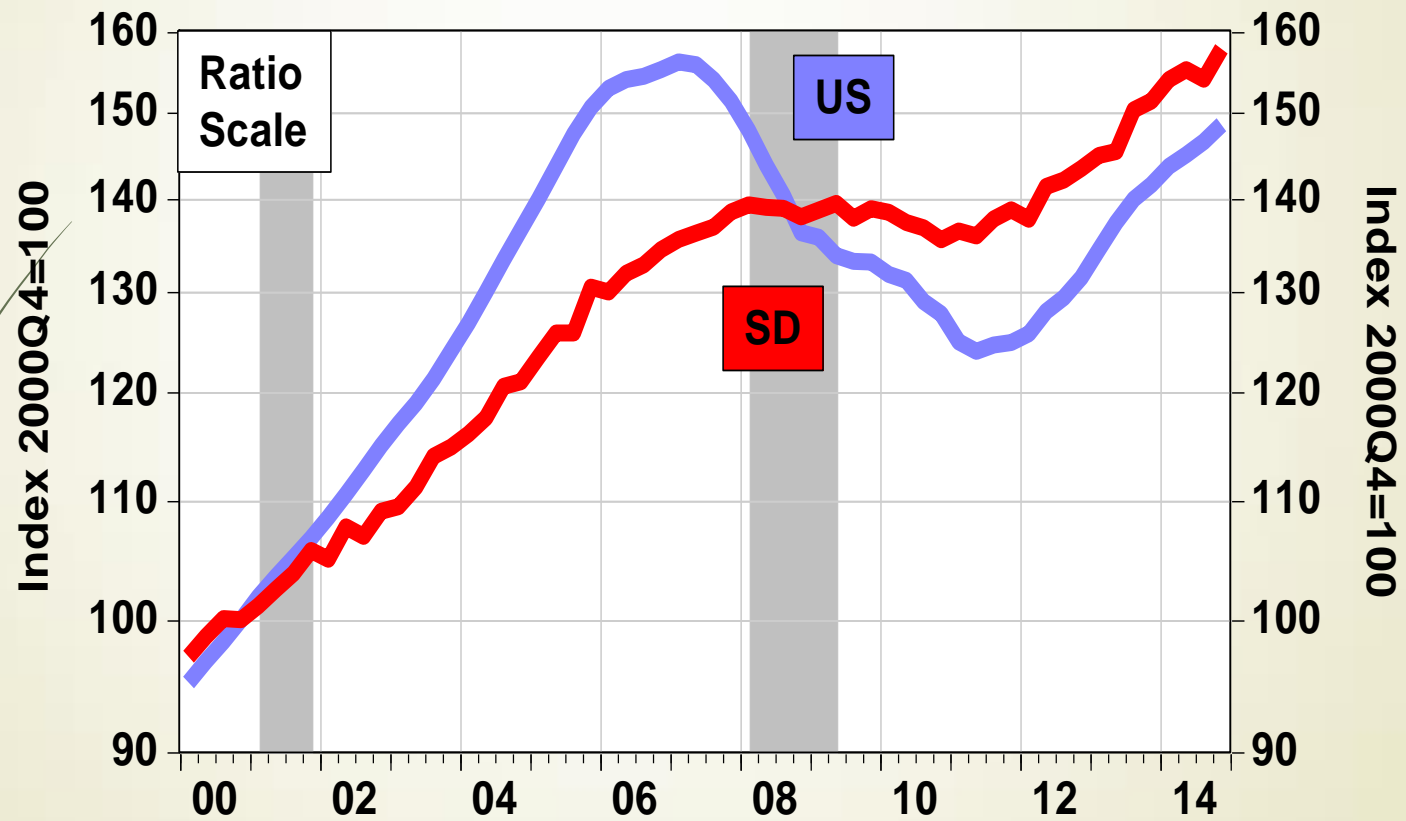
Sioux Falls Building Permits



Source: US Census Bureau

SD Peaked Later and Decline Less Severe

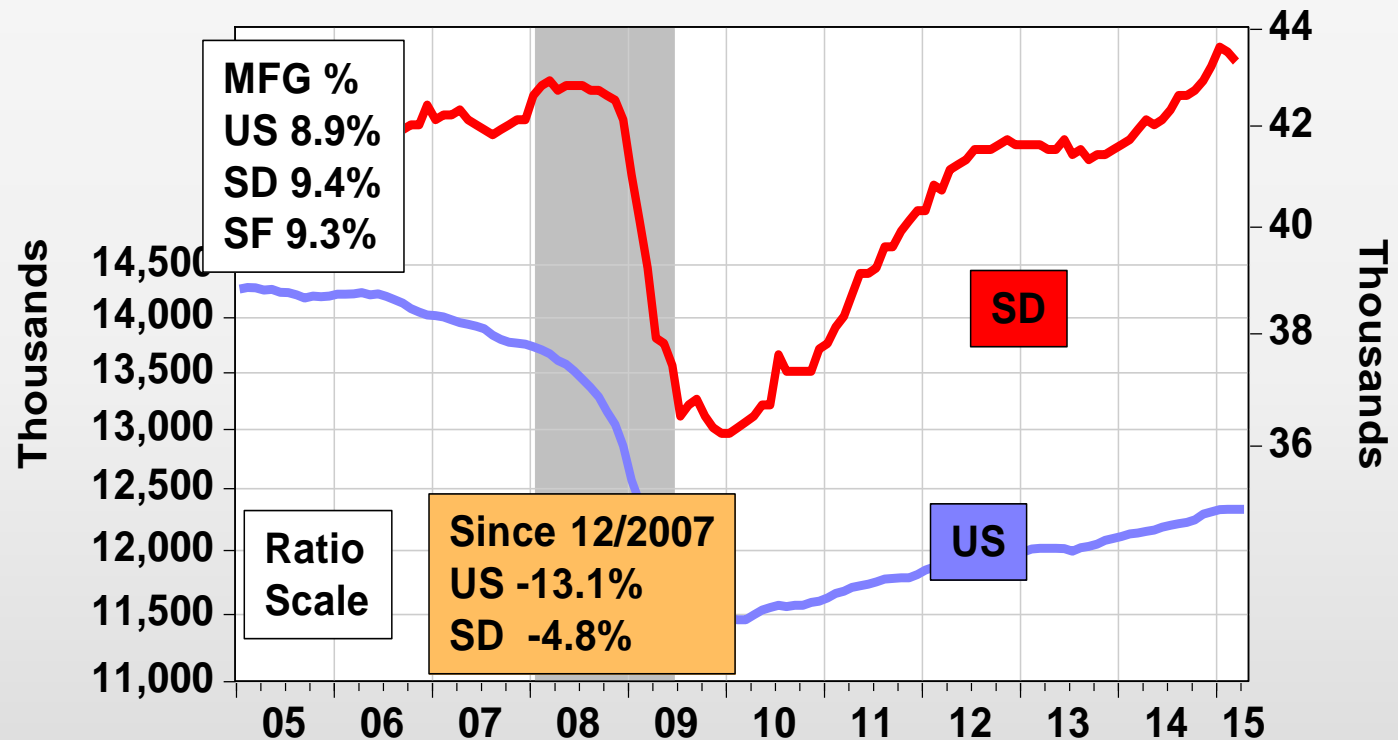
HOUSE PRICE INDEX: PURCHASE ONLY PRICE



Source: FHFA.GOV

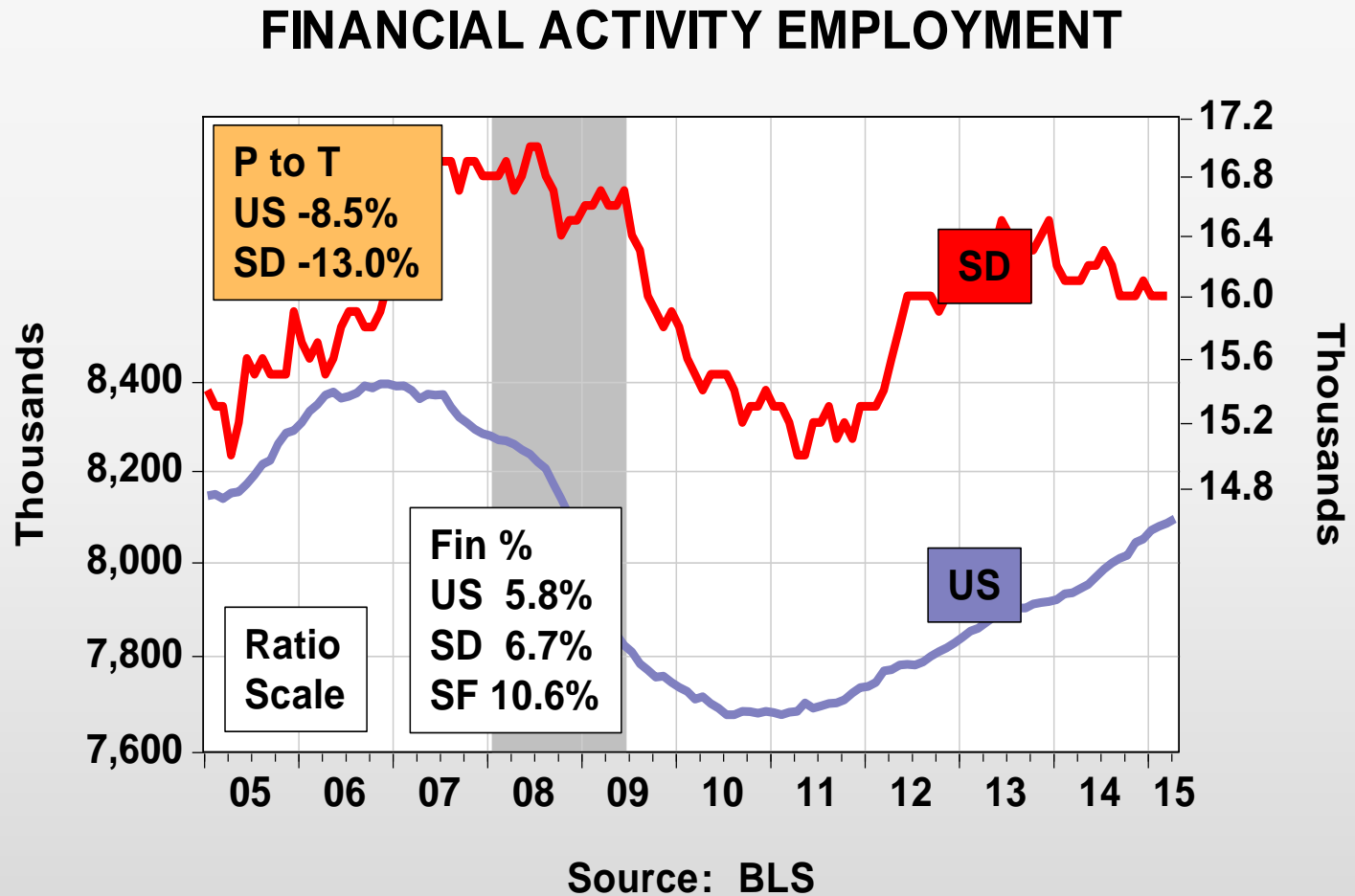
SD Back to Peak

MANUFACTURING EMPLOYMENT



Source: BLS

SD Not Back to Peak



Almost Back to Peak

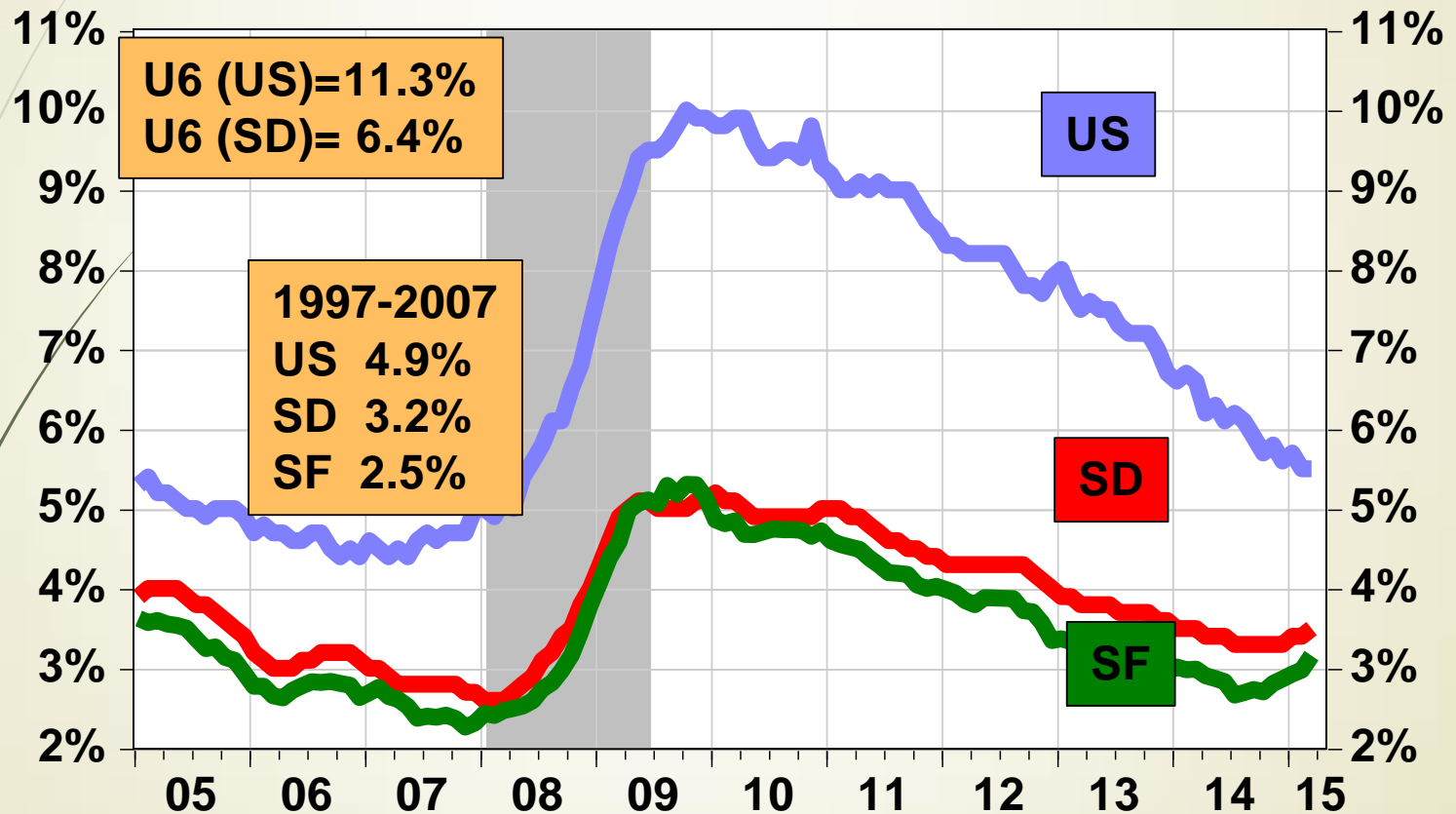
Sioux Falls Employment - Finance & Manufacturing



Source: BLS

SD 3.4% SF(SA) 3.2%

UNEMPLOYMENT RATE



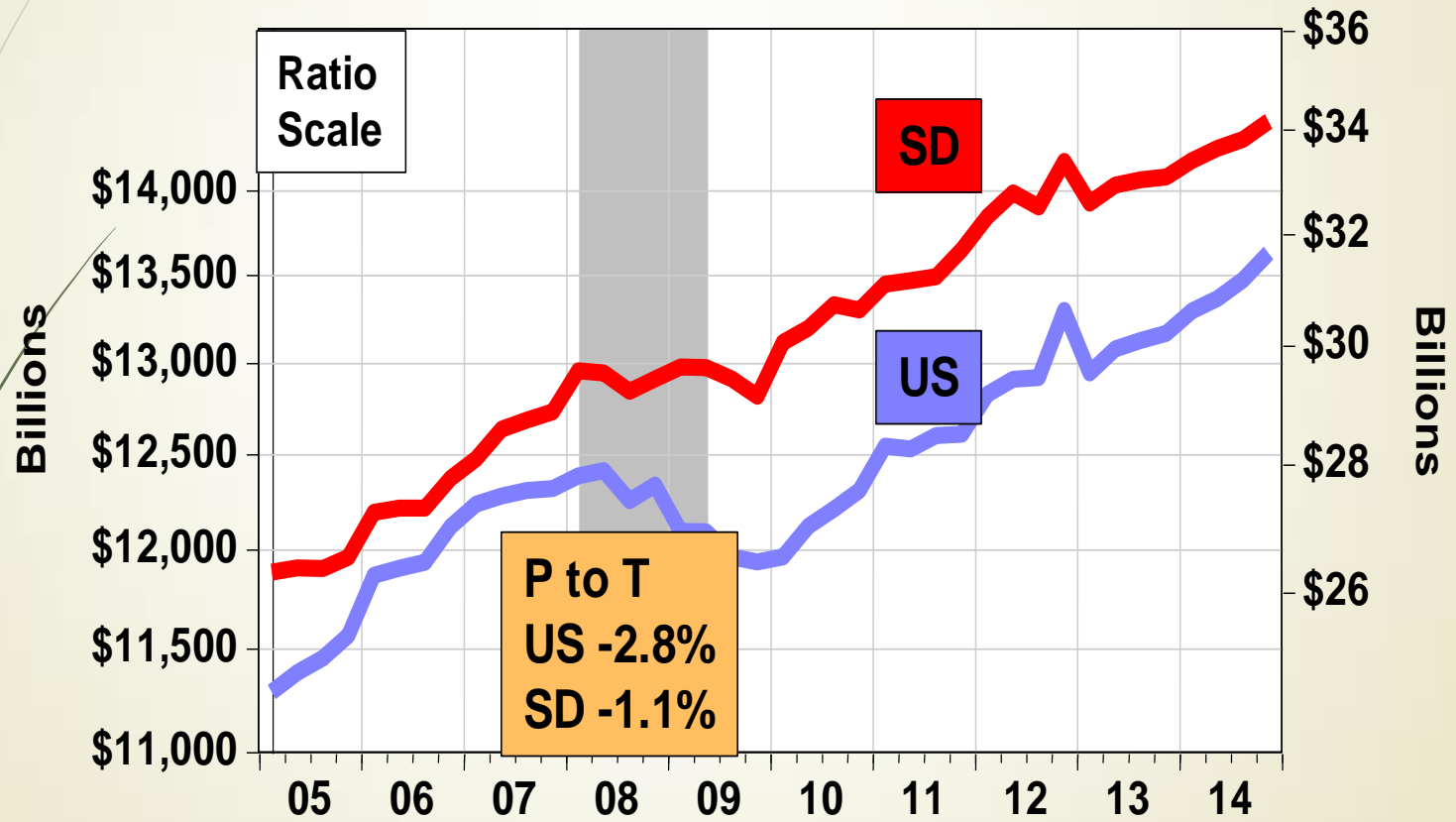
Source: BLS

Nonfarm Employment (MAR Year-Over-Year Growth)

Industry	SD	SF	RC
Total	1.3%	1.2%	1.1%
Construction	4.8%	9.2%	-2.4%
Manufacturing	3.1%	2.2%	-3.5%
Retail Trade	2.0%	5.1%	1.1%
Information	0.0%	0.0%	11.1%
Financial Act.	-1.0%	-0.6%	-2.3%
Leisure/Hosp	-1.7%	-3.7%	4.8%
Government	0.4%	0.8%	1.8%

SD Smaller Decline – Way Above Previous Peak

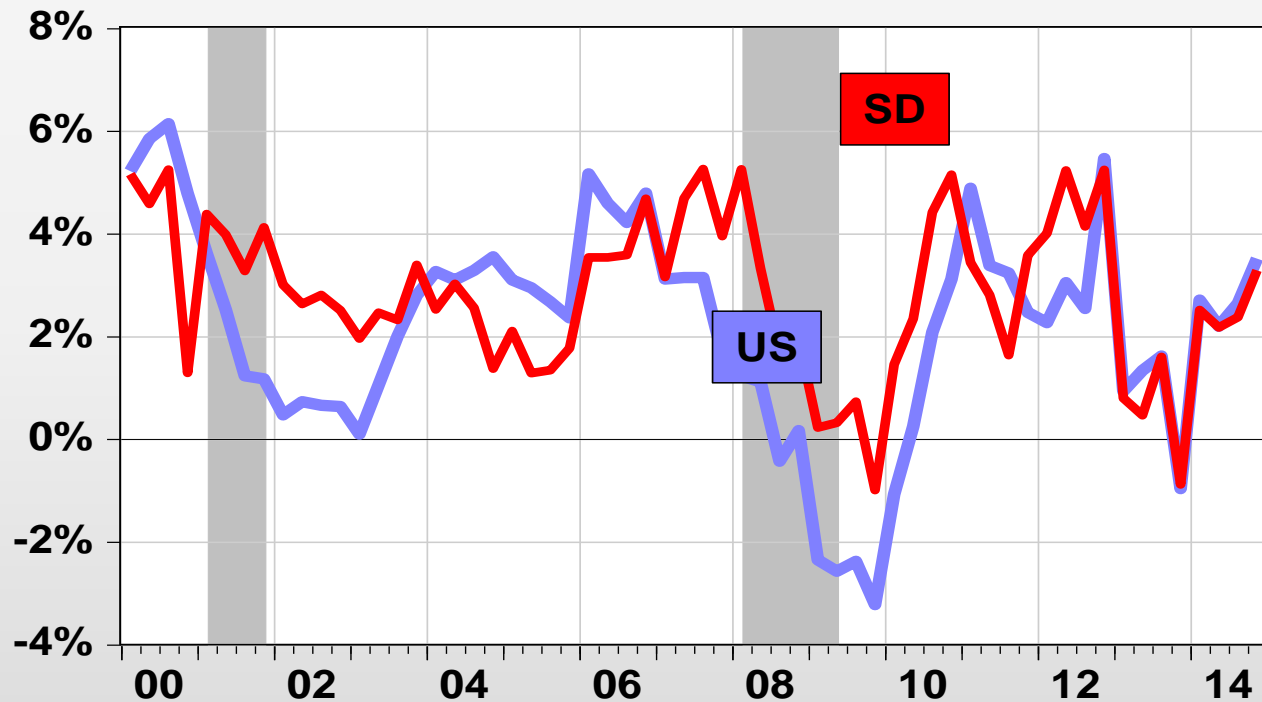
NONFARM PERSONAL INCOME (2009 \$S)



Source: BLS

US and SD Track

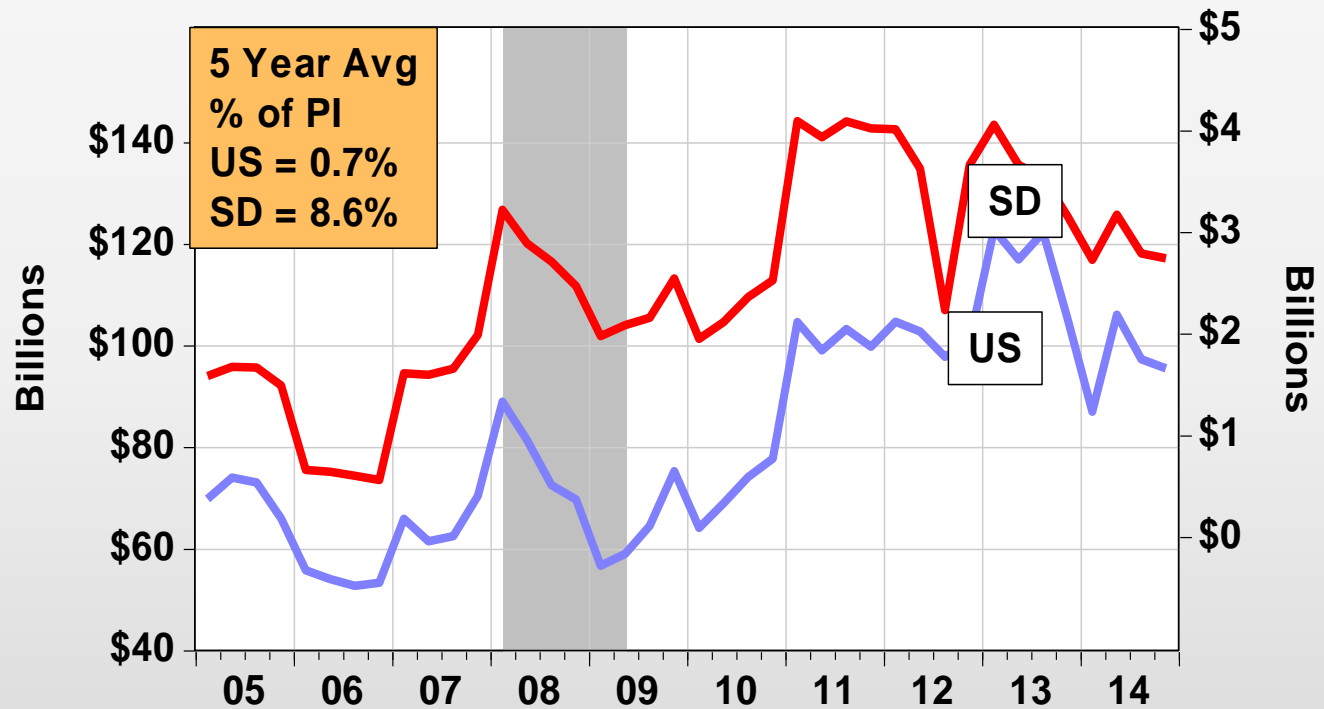
REAL NONFARM PERSONAL INCOME (Year-Over-Year Percent Change)



Source: BEA

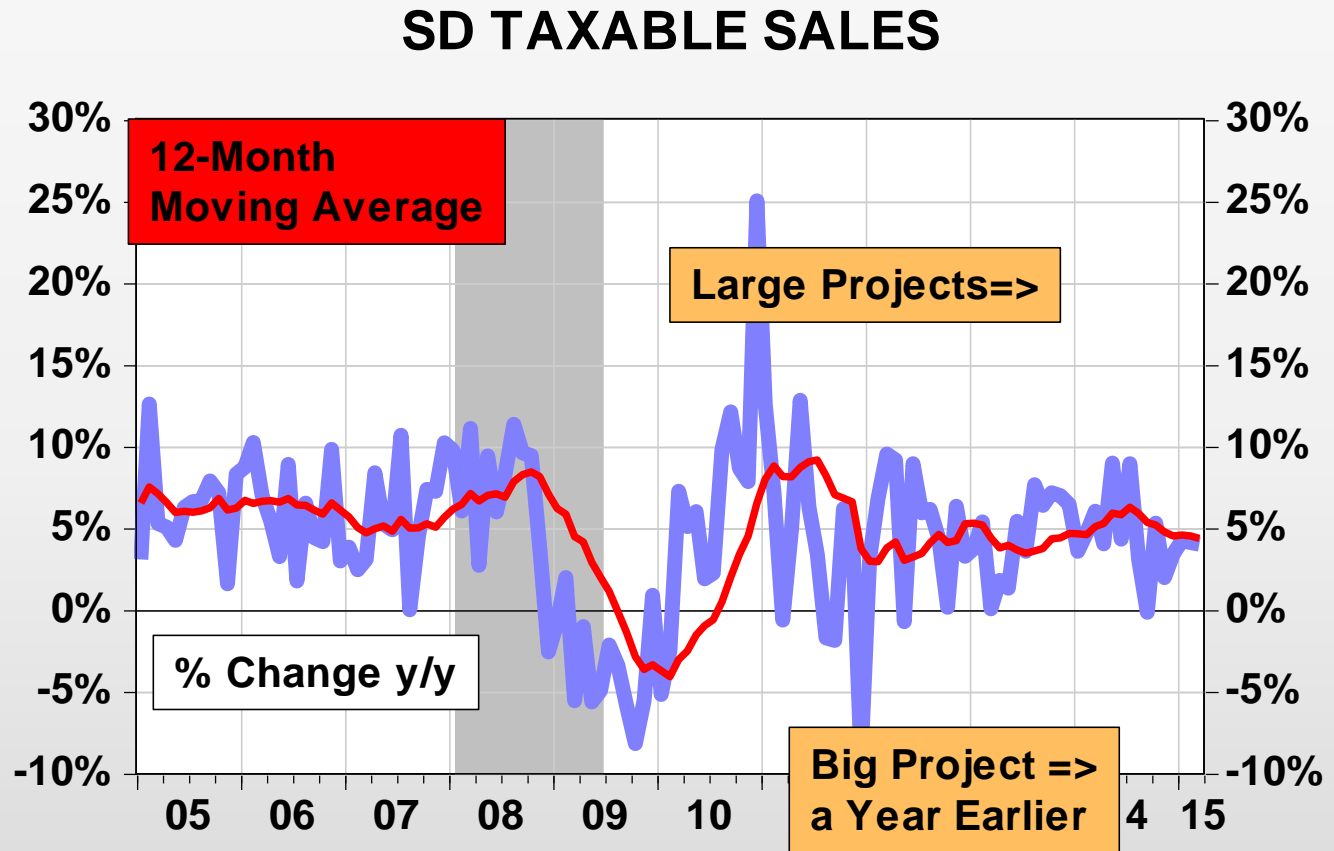
Down

FARM INCOME



Source: BEA

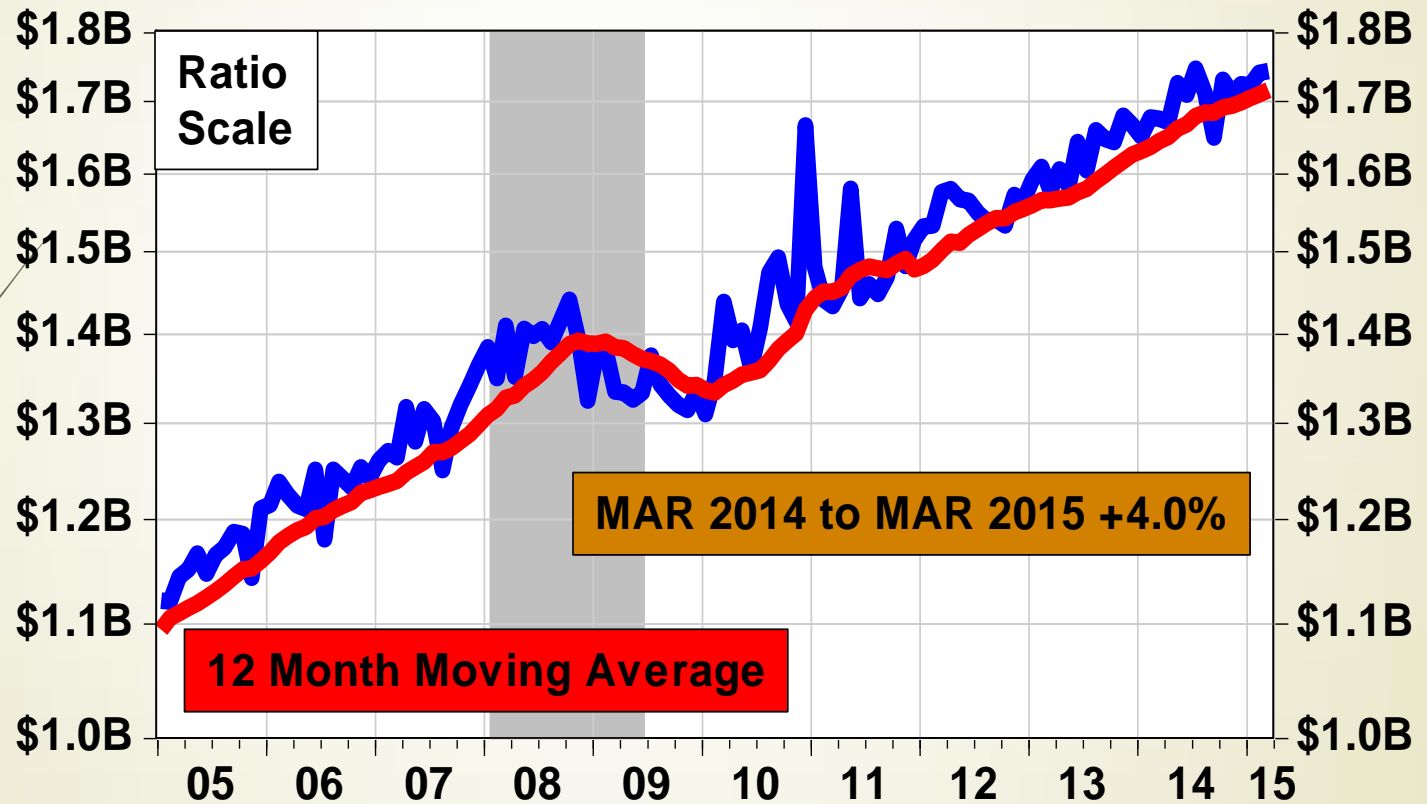
Pretty Good Growth



Source: SD Department of Revenue

Steady Growth

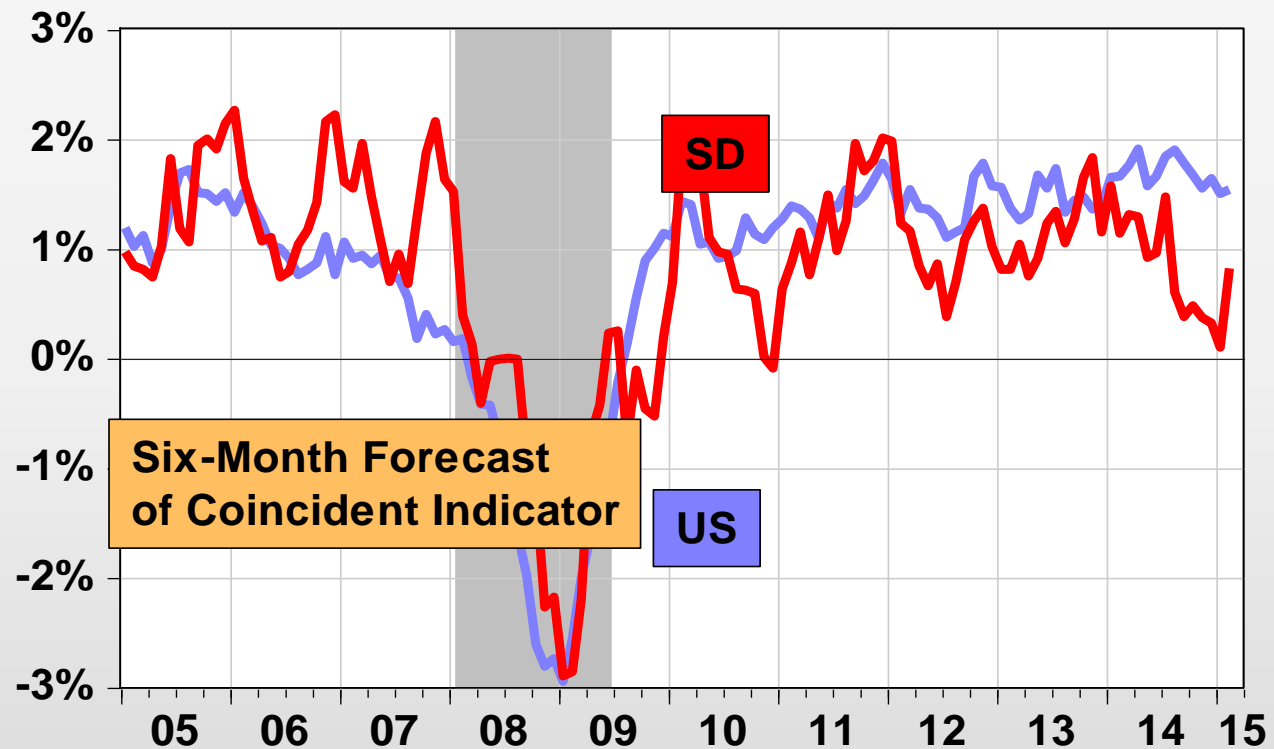
SD Taxable Sales - Seasonally Adjusted



Source: SD Department of Revenue

Forecasting Growth?

LEADING INDICATOR: US & SD



Source: Fed Res Bank of Philadelphia



Mid-American States Leading Indicators - GOSS

April 2015 Index > 50 Growth

Overall 54.2

New Orders 57.1

Sales 58.9

Delivery lead time 54.6

Inventories 49.8

Employment 50.6

“I expect the strong U.S. dollar to push 2015 exports ten percent below their 2014 levels and slow overall growth below that achieved in 2014.”

Conclusions

SD economy growing at moderate rate

SF economy growing at faster rate

US economy growing slowly

Only 15% chance of recession

The End

